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Overview of the Grant Thornton Report:

***“Reporting Entity Sector Profiles -
Money laundering and terrorist financing
vulnerability assessments”***

RDIMS 490261

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Background/Context

- FINTRAC hired Grant Thornton (GT) to develop RE sector profiles (not the same as “sector risk profiles”) by researching the sectors and conducting interviews with sector insiders.
 - The GT work also sought to identify ML/TF risks and vulnerabilities in each sector and includes a comparative analysis of the sectors (as per the Statement of Work developed by FINTRAC) that represents their views, not FINTRAC’s.

- Information contained within the final report is to be used in conjunction with FINTRAC’s knowledge, expertise, and unique ability to see the financial transaction reports to internally develop the sector risk profiles.
 - It will also assist in providing input to the Finance led National Risk Assessment.

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GT's Methodology and Approach

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GT's methodology involved information gathering from four primary sources:

- 1) Relevant authoritative AML/ATF material (e.g. FATF sector guidance; other country sector risk assessments; etc.);
- 2) Public records research (including news media, Statistics Canada, market and sector economic data industry statistics, etc.);
- 3) Interviews with GT AML specialists (domestically and internationally); and
- 4) Interviews with industry insiders in each of the sectors.

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GT's Methodology and Approach – Cont'd

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- As per the contract with GT, 11 sectors were assessed.
- Due to time constraints on the contract, FINTRAC prioritized the sectors in the following way, which allowed GT to prioritize their focus by sector:
 - 1) Real Estate
 - 2) Dealers in Precious Metals & Stones (DPMS)
 - 3) Securities Dealers
 - 4) Accountants
 - 5) Life Insurance
 - 6) BC Notaries
 - 7) Credit unions
 - 8) Casinos
 - 9) Financial Entities
 - 10) Lawyers
 - 11) MSB's

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RE Sector Profiles

For each RE sector, GT provided FINTRAC with a sector profile that includes information on the:

- Structure, size and segmentation of the RE population;
- Economic and financial statistics;
- Regulatory environment;
- Constraints on the sector;
- Associations that exist;
- Emerging business trends;
- Products and services offered;
- Types of customers;
- Geographic considerations;
- Other relevant information;
- Key points from interviews; and
- Risk factors.

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RE Sector Profiles – Cont'd

- All information included in the sector profiles is useful and valuable to FINTRAC, however, the most interesting information emanates from the interviews conducted with sector insiders/experts, as well as the risk factors sections.

Sector	# of Interviews Conducted	Sector	# of Interviews Conducted
Real Estate	7	BC Notaries	1
DPMS	6	Credit Unions	7
Securities	10	Casinos	2
Accountants	5	Financial Entities	6
Life Insurance	2	Lawyers	6
MSBs	5	Total	57

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Key Risk Factors Identified by GT

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1) Business Relationships/Linkages

- Use of trust accounts was identified as high risk (Real Estate, Accounting, Lawyers).
- The "gatekeeper role" was also determined to be risky (Securities, Accountants, Life Insurance, MSBs, Lawyers)

2) Geography Factors

- Purchase of real estate and investment assets (Securities) with offshore money was identified as high risk.
- Access to global markets also high risk (DPMS, CUs, financial entities, MSBs).

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1) Business relationships/linkages risk factors

- The use of legal trust accounts was noted specifically as an area of concern, particularly for the real estate, accounting and legal sectors.
- The concept of the 'gatekeeper role' came through in our research for each of securities, accounting, life insurance, MSB's and the legal sectors.
- These factors were given higher weighting in the consideration of risk.

2) Geography risk factors

- The purchase of Canadian real estate assets with offshore money and/or by offshore persons was noted as a significant risk factor.
- Similarly, the purchase of investment assets through Canadian securities firms with offshore money, particularly through the use of off shore companies, was noted as a significant risk.
- The ability to access global markets through Canadian sector participants was also rated higher for ML/TF vulnerability risks (particularly via dealers in precious metals, credit unions, financial entities and MSBs).

Key Risk Factors Identified by GT – Cont'd

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- 3) General Market and Delivery Channel Risk
 - Market competitiveness, structures in place, ethics, size of entity are of critical importance (especially with smaller entities within Real Estate and MSB sectors).
- 4) Transaction Methods and Types
 - Use of corporate vehicles to conceal ownership, source and purpose of transactions was identified as high risk (Real Estate, Securities)
- 5) Customer Types and Characteristics
 - Generally applicable across all sectors but of elevated risk to sectors that provide professional services across and within other sectors (Accountants, Lawyers).

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3) General market and delivery channel risk factors

- Market competitiveness, the structures in place to support the quality of services provided, and the ethics of individual persons working within the sector are of critical importance (especially when the size of the entity is considered).
- Of critical importance for the real estate and money service businesses sectors as, at the smaller end of the market, there is often no quality and ethics infrastructure in place.
- Also the case for the securities, accountants, lawyers and credit union sectors except that there is a regulated environment for these sectors, which to some extent mitigates the vulnerability.

4) Transaction methods & types risk factors

- The use of corporate vehicles was specifically noted as a higher risk factor in the real estate and securities sectors and is generally seen as a method to conceal ownership, source and purpose of funds/transaction and adds to the opacity of the environment.

5) Customer types and characteristics risk factors

- This category and grouping of risk was seen as generally applicable across all sectors.
- However, it was noted that the accounting and legal sectors are both ones which provide professional services across and within markets and also to participants of the other sectors researched. For each of these two sectors, especially at the smaller end of

the market, customer due diligence and acceptance practices varied considerably. Accordingly, these risk factors were rated higher.