

Overview Report: Trade-Based Money Laundering Publications and Records

A. Scope of Overview Report

1. This overview report sets out information related to works published by the Financial Action Task Force (“FATF”) and/or FATF-style regional bodies on the subject of trade-based money laundering (“TBML”). It also appends relevant documents with respect to Budget 2019, and with respect to the involvement of the Financial Transactions and report Analysis Centre of Canada (“FINTRAC”), the Canada Border Services Agency (“CBSA”) and the Royal Canadian Mounted Police (“RCMP”) in TBML. Its purpose is to provide background and contextual information to support *viva voce* evidence to be called during Commission hearings.

B. FATF and FATF-Style Regional Bodies

2. The FATF *Money Laundering Vulnerabilities of Free Trade Zones* (2010) is attached as Appendix “A”.
3. The FATF *Trade-Based Money Laundering* (2006) is attached as Appendix “B”.
4. The FATF *Best Practices on Trade Based Money Laundering* (2008) is attached as Appendix “C”.
5. The FATF *Professional Money Laundering* (2018) is attached as Appendix “D”.
6. The Asia/Pacific Group on Money Laundering *APG Typology Report on Trade Based Money Laundering* (2012) is attached as Appendix “E”.
7. The Bankers Association for Finance and Trade (“BAFT”) *Combatting Trade Based Money Laundering: Rethinking the Approach* (2017) is attached as Appendix “F”.
8. The Wolfsberg Group, International Chamber of Commerce (“ICC”) and BAFT *Trade Finance Principles, 2019 amendment* (2019) is attached as Appendix “G”.

C. Budget 2019

9. The Canada *Investing in the Middle Class, Budget 2019* ("Budget 2019") was released March 19, 2019. *Budget 2019* contains numerous money laundering-related initiatives, and those relevant to this report are attached as Appendix "H".

10. *Budget 2019* (at 183, 199) proposes to provide the RCMP with \$68.9 million over five years and \$20 million ongoing for enhanced federal policing capacity, including to fight money laundering.

11. In *Budget 2019* (at 199), Canada proposed to create the Anti-Money Laundering Action, Coordination and Enforcement ("ACE") Team. *Budget 2019* proposes to invest \$24 million over five years, beginning 2019-2020 for Public Safety Canada to implement the ACE Team as a pilot. It also proposes to create a multi-disciplinary Trade Fraud and Trade-Based Money Laundering Centre of Expertise. *Budget 2019* proposes to invest \$28.6 million over four years, beginning in 2020-21, with \$10.5 million per year ongoing.

D. FINTRAC / CBSA / RCMP

12. The Government of Canada *Trade-Based Money Laundering Overview*, presented April 1, 2020, is attached as Appendix "I".

13. The Criminal Intelligence Service British Columbia & Yukon Territory *CISBC/YT 2016 Provincial Threat Assessment*, Part "B", undated, is attached as Appendix "J".

14. The Criminal Intelligence Service British Columbia & Yukon Territory *CISBC/YT 2017 Provincial Threat Assessment*, Part "B", undated, is attached as Appendix "K".

15. The Criminal Intelligence Service British Columbia & Yukon Territory *CISBC/YT 2018 Provincial Threat Assessment*, Part "B", undated, is attached as Appendix "L".

16. The Criminal Intelligence Service British Columbia & Yukon Territory *CISBC-YT Money Laundering Collection Initiative (2018)*, dated May 3, 2018, is attached as Appendix "M".

17. The Criminal Intelligence Service British Columbia & Yukon Territory *Trade Based Money Laundering*, dated October 2018, is attached as Appendix "N".
18. The Criminal Intelligence Service British Columbia & Yukon Territory *General Framework of how TBML fits into the ML Process*, dated February 13, 2018, is attached as Appendix "O".
19. The FINTRAC *Professional money laundering through trade and money services businesses*, dated July 18, 2018, is attached as Appendix "P".
20. The CBSA *Update on the CBSA Centre of Expertise on Trade Fraud and Trade-Based Money Laundering*, dated January 2020, is attached as Appendix "Q".
21. The CBSA *Trade Fraud & Trade-Based Money Laundering Centre of Expertise*, dated April 2020, is attached as Appendix "R".
22. The CBSA *Trade-Based Money Laundering 101*, dated June 5, 2019, is attached as Appendix "S".
23. The CBSA *CBSA Knowledge Pool on Trade-Based Money Laundering*, dated April 2020, is attached as Appendix "T".
24. The CBSA *Enforcement Manual, Part 2: Enforcement Priorities, Chapter 2*, dated November 4, 2016, is attached as Appendix "U".
25. The CBSA *Backgrounder: Trade-Based Money Laundering in Canada*, dated September 10, 2019, is attached as Appendix "V".
26. The curriculum vitae of Joel Gibbons, Senior Program Advisor, CBSA, is attached as Appendix "W".
27. The curriculum vitae of Sgt. Sushile Sharma, RCMP, is attached as Appendix "X".
28. The curriculum vitae of Bryanna Gateley, RCMP C/M Intelligence Analyst, is attached as Appendix "Y".

29. The CBSA *Trade-Based Money Laundering Overview*, dated June 8, 2020, is attached as Appendix “Z”.

30. The CBSA *COVID-19 Implications for Trade Fraud*, dated April 23, 2020, is attached as Appendix “AA”.

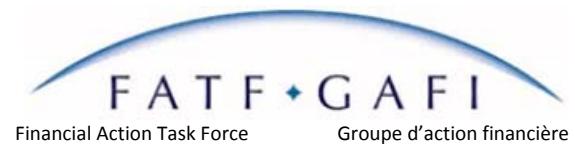
31. The RCMP *Trade-Based Money Laundering: A Law Enforcement Perspective*, dated April 12, 2018, is attached as Appendix “BB”.

32. The Government of Canada *Trade-Based Money Laundering: Canadian Perspective*, dated April 25, 2018 is attached as Appendix “CC”.

33. The CBSA *Trade Fraud & Trade-Based Money Laundering Centre of Expertise*, dated July 1, 2020, is attached as Appendix “DD”.

34. The CBSA *Electronics and Canadian Goods Returned / The Abuse of Tariff Codes 9813 and 9814 in TBML ICAP*, dated October 1, 2020, is attached as Appendix “EE”.

35. The CBSA *Trade Fraud & Trade Based Money Laundering Centre of Expertise*, dated September 24, 2020, is attached as Appendix “FF”.



FATF Report

Money Laundering vulnerabilities of Free Trade Zones

March 2010



THE FINANCIAL ACTION TASK FORCE (FATF)

The Financial Action Task Force (FATF) is an independent inter-governmental body that develops and promotes policies to protect the global financial system against money laundering and terrorist financing. Recommendations issued by the FATF define criminal justice and regulatory measures that should be implemented to counter this problem. These Recommendations also include international co-operation and preventive measures to be taken by financial institutions and others such as casinos, real estate dealers, lawyers and accountants. The FATF Recommendations are recognised as the global anti-money laundering (AML) and counter-terrorist financing (CFT) standard.

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EXECUTIVE SUMMARY

1. Free Trade Zones (FTZs) have proliferated in recent years, such that today there are approximately 3 000 FTZs¹ in 135 countries around the world with a total turnover in the billions of U.S. dollars.² FTZs are designated areas within jurisdictions in which incentives are offered to support the development of exports, foreign direct investment (FDI), and local employment. These incentives include exemptions from duty and taxes, simplified administrative procedures, and the duty free importation of raw materials, machinery, parts and equipment. In addition to boosting economic opportunity, these incentives can result in a reduction in finance and trade controls and enforcement, creating opportunities for money laundering and the financing of terrorism. Because the same characteristics that make FTZs attractive to legitimate business also attract abuse by illicit actors, FTZs are a concern that the Financial Action Task Force (FATF) should address.

2. The case studies included in this report illustrate ways in which FTZs are misused for money laundering and terrorist financing. In particular, the cases highlight the following systemic weaknesses that make FTZs vulnerable to abuse:

- Inadequate anti-money laundering (AML) and combating the financing of terrorism (CFT) safeguards;
- Relaxed oversight by competent domestic authorities;
- Weak procedures to inspect goods and register legal entities, including inadequate record-keeping and information technology systems; and
- Lack of adequate coordination and cooperation between zone and Customs authorities.

3. Further examination of the vulnerabilities highlighted in the case studies allowed for the development of ML/TF risk indicators related to financial transactions, unusual business activity, and trade-based money laundering (TBML) which takes place within FTZs.

4. Although this is the first global report to address FTZs, this is not the first time that the money laundering and terrorist financing vulnerabilities of FTZs have been identified. Through the work of the Caribbean Financial Action Task Force (CFATF) and Aruba a number of best practice elements have been

¹ The geographic area in which special regulatory and tax treatment is applied to certain trade-related products and services, which in this paper is referred to as a free trade zone, is also known by various other names throughout the world, including: free zones, freeport zones, port free trade zones, foreign trade zones, e-zones, duty free trade zones, commercial free trade zones, export processing zones, logistic zones, trade development zones, industrial zones/parks/areas, hi-tech industry parks, hi-tech and neo-tech industrial development zones, investment zones, bonded zones, special economic zones, economic development zones, economic and technological development zones, resource economic development zones and border economic cooperation zones.

² Akinci, G. and Crittle, J. (2008).

developed. The World Customs Organization, the only global standard setter of free trade zones, has also developed reference tools for the development of FTZs. Finally, the FATF TBML Typologies and Best Practices Papers³ published in 2006 and 2008 respectively presented red flag indicators and best practices relevant to FTZs.

5. The misuse of free trade zones impacts all jurisdictions including those without FTZs of their own, because goods can originate from or be transhipped through FTZs not subject to adequate export controls. Proliferators of weapons of mass destruction (WMD) abuse FTZs to tranship dual use goods and to disguise the final destination of sensitive items. FTZs can also be used to create legal entities and access the international financial system, providing opportunities to launder illicit proceeds. Many major zones are also located in regional financial centres linking international trade hubs with access to global centres of finance.

6. Free trade zones are central to the integrated global economy. They stimulate economic growth and play a central role in business for many countries and leading manufacturers. The relevance of FTZs continues to grow as globalization defines economic progress. However the standards, oversight, and regulations governing FTZs have not kept pace with these developments. As a result, illicit actors have been able to take advantage of relaxed oversight and the lack of transparency in zones to launder the proceeds of crime, finance terrorism, and facilitate WMD proliferation.

³

See www.fatf-gafi.org.

CHAPTER 1: INTRODUCTION

1.1 Need for the Typology

7. Free trade zones (FTZs) present a unique money laundering and terrorist financing threat because of their special status within jurisdictions as areas where certain administrative and oversight procedures are reduced or eliminated in order to boost economic growth through trade. Jurisdictions throughout the world create these designated areas, which go by many names. For the purposes of this paper, these areas are referred to as FTZs. The special tax and administrative arrangements available to exporters and export service providers in FTZs, although intended to boost legitimate trade, can create money laundering and terrorist financing vulnerabilities.

8. Other typologies reports have addressed related vulnerabilities, notably the Trade Based Money Laundering (TBML) typology report and TBML Best Practices Paper published in June 2006 and June 2008 respectively. While these reports were instructive, they did not fully address the vulnerabilities nor the scope of techniques utilized by illicit actors in part because they did not take into account the estimated 3 000 FTZs that play a significant role in global trade and which attract substantial funds that are associated with cross-border transactions.

1.2 Scope

9. This report presents the first completed attempt at the international level to identify and address the money laundering and terrorist financing vulnerabilities of FTZs. The report also addresses potential shortcomings in the FATF's current AML/CFT framework.

10. The objectives of this typology report are to:

- Understand the size, scope, definition, and role of FTZs worldwide and their role in the global economy;
- Identify the money laundering and terrorist financing threats and vulnerabilities associated with FTZs;
- Identify the methods used to move and launder the proceeds of crime and/or finance terrorism using FTZs; and
- Suggest areas for further consideration to improve the AML/CFT framework concerning FTZs.

1.3 Methodology

11. In preparing this report, the project team utilized a number of resources. First, the project team conducted a thorough literature review, referencing work conducted by international organizations, trade associations, and academia. The project team also developed a comprehensive questionnaire that was distributed to FATF members and observers in January 2009, which produced valuable information. Finally, the project team engaged the private sector and international organizations. Using these research tools the project team was able to identify: (i) the characteristics that define FTZs; (ii) the number and

scope of FTZs around the world; (iii) the types of activities serviced by the FTZs; and (iv) the AML/CFT vulnerabilities associated with FTZs. In addition to identifying the AML/CTF vulnerabilities, the project team reviewed the scope of measures that exist to reduce the threat of ML/FT in FTZs. This stage incorporated work conducted to date on TBML and interviews with free trade zone authorities and merchants. This background and research have provided a means for the team to evaluate the extent to which ML/TF vulnerabilities are mitigated and assess whether safeguards need to be strengthened, and if so how that might be done.

12. The project invited a wide range of participation from the international community in the spirit of sharing experiences and knowledge. It encouraged international cooperation with a view toward the development of a uniform framework for regulating international trade systems in FTZs. The project team was co-chaired by Belgium and the United States and was composed of Aruba, Australia, the CFATF, Singapore, and the World Customs Organization (WCO).

CHAPTER 2: THE ROLE AND SCOPE OF FREE TRADE ZONES

2.1 Definition

13. FTZs are created within jurisdictions to promote trade, support new business formation, and encourage foreign direct investment. They provide a preferential environment for goods and services primarily associated with exports, whereby a minimum level of regulation is imposed on those companies approved to operate within the zone. Additional benefits include exemptions from duty and taxes, simplified administrative procedures and duty free imports of raw materials, machinery, parts and equipment.

14. There are as many names for these specially designated trade-promotion areas as there are countries that conduct international trade. In addition to free trade zone, some of the other common terms for these areas include special economic zones, foreign trade zones, and export processing zones. The International Convention on the Simplification and Harmonization of Customs Procedures (Revised Kyoto Convention) uses the term “free zones,” which the revised convention describes as “a part of the territory of a Contracting Party where any goods introduced are generally regarded, *insofar as import duties and taxes are concerned*, as being outside the Customs territory”⁴.

15. Respondents to the project team’s FTZ questionnaire noted there is more than one kind of zone and although all may exist “outside the customs territory” each area exists to facilitate a certain activity, such as manufacturing, processing, warehousing, storage, and transhipment. Some respondents indicated their FTZs were more than work zones, as they can include on-site housing, retail establishments, financial services, even tourism and gambling.

16. Generally an FTZ is an area or regime within a country with a special status concerning customs and/or tax controls, in which enterprises are licensed to conduct business or provide services for export and/or import purposes though the granting of special incentives to stimulate their development. There is a separate customs area providing duty free benefits and streamlined procedures to promote international trade. Generally there is single management and/or administration, although a number of different organizations, private and public, may be involved in the management and operation of a zone.

17. Logistically, zones are most often located near ports of entry; air, land or sea, but operate apart from traditional ports of entry and often under different rules. This location facilitates entry to the zone as well as the exit and entry to the customs territory. It also provides Customs officials with easier access to the port and FTZ. Prohibited merchandise, items that are forbidden by law to enter a jurisdiction, cannot generally be admitted to an FTZ but certain types of restricted merchandise such as items which may require a special license or permit may be allowed. In most cases merchandise entering and exiting an FTZ must be accompanied by commercial documents, for example a bill of lading and a commercial invoice.

⁴

World Customs Organisation (1999).

Tracking is conducted through a mix of paper and IT systems, depending on the zone, however many use both. Most FTZs inspect some percentage of cargo entering the zone, but this varies widely.⁵

2.2 Evolution

18. FTZs have played a role in global trade since ancient times. Beginning in the 18th century these zones became central locations on international trade routes serving as hubs for trade and transhipment. Examples of these centres included Gibraltar (1704), Singapore (1819) and Copenhagen (1891). The first modern zone was established in 1959 as the Shannon Free Zone in Ireland, the world's first duty free industrial location targeting industries that would use the airport to move both people and freight. The zone was very successful at turning the local economy around and subsequently serving as a model for future free zones around the world.⁶

19. Zone development has moved away from one rigid definition of a FTZ and today has evolved as zones and their roles in different economies is reflected through a wide range of different types of zones with features tailored to the purpose of the zone including foreign direct investment (FDI), economic development, and employment generation, among others.

20. Today the range of zones generally falls into one of the following categories.⁷

Free trade zones (FTZs); these are typically general purpose fenced in, duty-free areas offering warehousing, storage and distribution facilities for trade, transhipment, and re-export of products. These are located in most ports around the world.

Examples: Colon Free Zone, Panama, and Singapore

Export Processing Zones (EPZs) are industrial areas focusing on assembly and manufacturing of intermediate imports aimed primarily but not exclusively at foreign markets. Particular sectors include labor-intensive, light manufacturing such as garment production and the assembly of electronics. EPZs also promote linkages with the domestic economy by encouraging technology transfer and innovative industrial strategies. Certain types of EPZs are sometimes called **Hybrid Export Processing Zones** because they combine the traditional export focus of an EPZ with a sub-divided area in which non-export oriented activities can take place.

Example: Karachi, Pakistan

Enterprise zones are economic development areas intended to revitalize specific urban or rural areas where they are located through tax incentives and financial grants. These are most often found in the developed world.

Example: Docklands, London

Freeports typically the largest of the zones, accommodate all types of activities including tourism, retail sales, and on-site residence, and accompany a broader set of incentives and benefits. Freeports are different from traditional FTZs as they are not seen as export drivers but areas promoting overall economic growth linking the zones with the overall economy of the nation. This has also resulted in greater expansion and liberalization of the core set of policies

⁵ FATF FTZ Questionnaire Analysis.

⁶ Akinci *et al*, p. 9.

⁷ Akinci *et al*, p. 10.

present in most free zone programs. The European Union allows inward processing relief and other customs schemes that produce some of the benefits of free zones without requiring formal zone definition. In the UK, for example, free ports do not offer significant benefits beyond inbound processing relief schemes. As a consequence ports like Rotterdam have marketed themselves as “freer than a Freeport”.

Example: Hong Kong, China

Single factory EPZ schemes provide incentives similar to export processing zones but are not a zone at all, rather a single factory located anywhere in a country which receives the special duty free privileges of zones. In the United States they are also called sub-zones.

Example: Mauritius and Madagascar are examples of where Single Factory EPZs exist.

Foreign Trade Zones is the name of the specially designated zones in the United States. They are established in or adjacent to a port of entry in which all types of merchandise may be held without being subject to U.S. Customs duties and other taxes.

Special Economic Zones (SEZs): SEZs extend the relaxed tax and administration characteristics of FTZs to investment arrangements, labour laws, management practices, and wage rate policies in specific areas of the country. Originally this structure applied only to China but versions now exist in India and elsewhere. China has proposed applying special treatment within SEZs to promotion of real estate, tourism, infrastructure development and banking.

Snapshot: Shenzhen, China

The Shenzhen Special Economic Zone (SEZ) was founded in 1980 as the first in China. It is nearly 2 000 square kilometres, has over 12 million inhabitants and a GDP in 2006 of USD 71.3 billion. The SEZ has significantly contributed to the transformation of Shenzhen from a fishing village to a major industrial and financial centre which has benefited tremendously from the liberal economic policies granted to the SEZ. As the first Chinese SEZ, Shenzhen has served as a pilot for market oriented reforms. Shenzhen enjoys the most liberal economic policies in China both in terms of FDI and engaging in international trade. Examples of the pilot reforms include differential corporate tax rates for foreign and domestic firms. Migrants from across China account for 83% of the population of Shenzhen and less than 6% are over the age of 60. This combination has lead to an innovative economic environment. Shenzhen has also built its success on the availability of capital. In 2005, one third of the total number of venture capital firms in the whole country was located in Shenzhen. Foreign direct investment (FDI) has played a major role in the development of Shenzhen. Toshiba, Epson, Wal-Mart, Sony and IBM are major investors. 141 of the world's top 500 multinational companies have invested in Shenzhen.

The story of the Shenzhen zone is multi-faceted as the SEZ hosts hundreds of other national level zones with special incentive regimes. Within Shenzhen there are 15 free trade zones, 17 export processing zones, 5 economic and technological developments zones, 53 high technology developments zones and 15 border economic cooperative areas.⁸

Bonded Warehouses: Specially designated storage warehouses that have the authorization of Customs authorities.

⁸

Zhang Yansheng (2007).

Snapshot: Mexican Maquiladora Program

With the aim to further direct foreign investment, the Mexican government developed administrative programs that bring fiscal benefits and administrative easements to resident enterprises involved in the elaboration, reparation or transformation of merchandises (enterprises commonly known as “maquiladoras”). Such programs authorise the temporary import of goods exempt from general import tax; value added tax and other duties, given that such merchandises are resold off abroad upon concluding the makeover process (which regularly lasts 18 months).

If temporarily imported merchandises are not dispatched promptly, they become definitive trade in goods, subject to customary trade duties.

Joint investigations and co-ordinated operational strategies allowed Mexican authorities to identify an important universe of companies that had failed to return on time exempted goods.

According to Customs Law, those who introduce or extract merchandises omitting the total or partial payment of trade duties commit contraband.

Some of those companies simply omitted to return the goods, while others engaged as well in simulation acts to fake timely deliveries. All of them affected the federal treasury and severely damage the national economy, as illegal commodities are traded in the informal market, generating unfair competition and impunity.

Such criminal activities generate large profits that are reinvested unevenly so as to hide their illicit origin or give them the appearance of legitimacy. In one year, the Ministry of Finance in Mexico has conducted investigations and integrated criminal cases based on this typology with an historic aggregated economic damage that adds up to roughly 58% of the annual budget allocated to the General Attorney's Office or 75% of the annual budget allocated to the Ministry of the Interior.

In addition to the zones above, there are a number of highly specialized zones promoting a specific industry such as information technology, tourism, or heavy industry. The location varies depending on the sector. Sites can be found adjacent to universities, ports or other relevant hubs of activities relevant to that sector.

Examples: Labuan Offshore Financial Centre, Malaysia and Dubai Internet City, UAE

21. With regard to their role in attracting new businesses, the following table describes the Zone Concepts in Selected Developing and Transition Economies.

	Traditional EPZ Model	Hybrid EPZ Model	Commercial Free Zone	Single Factory	Freeport
Asia and the Pacific	Taiwan, China Korea, Rep. of Indonesia Vietnam Philippines Bangladesh India Malaysia Pakistan Sri Lanka	China Indonesia Lao PDR Korea, Democratic People's Republic of Philippines Thailand Vietnam	China Japan Malaysia	Fiji	China Hong Kong, China India Indonesia Korea, Rep. of Macau Malaysia Philippines Singapore
Americas	Argentina Bahamas Belize Dominican Republic Guatemala Jamaica Nicaragua Peru Trinidad and Tobago Uruguay Venezuela, R.B. de	Bolivia Brazil Colombia Costa Rica Cuba Ecuador El Salvador Haiti Honduras	Argentina Bahamas Belize Brazil Canada Colombia Curacao Panama	Jamaica Mexico	Bahamas Chile Colombia Panama

	Traditional EPZ Model	Hybrid EPZ Model	Commercial Free Zone	Single Factory	Freeport
Middle East and North Africa	Algeria Iran, Islamic Rep. of Sudan	Bahrain Egypt, Arab Rep. of Syrian Arab Rep. Tunisia Turkey United Arab Emirates	Israel Jordan Kuwait Lebanon Libya Morocco Oman Tunisia Turkey United Arab Emirates Yemen, Republic of		Iran, Islamic Rep. of Jordan
Central and Eastern Europe and Central Asia	Slovenia	Belarus Albania Bosnia and Herzegovina Bulgaria Croatia Hungary Kazakhstan Kyrgyz Republic Latvia Lithuania Macedonia, FYR Moldova Poland Ukraine	Czech Republic Estonia Latvia Romania Serbia Montenegro Slovak Republic Ukraine Uzbekistan		Russian Federation
Sub-Saharan Africa	Cameroon Cape Verde Equatorial Guinea Gambia, The Ghana Kenya Mozambique Namibia Nigeria Senegal South Africa Tanzania Togo Uganda Zambia Zimbabwe		Benin Djibouti Gabon Liberia Mauritius Tanzania Togo	Burundi Madagascar Malawi Mali Mauritius Senegal Seychelles	

Source: BearingPoint, ILO database; WEPZA (2007); FIAS research.

22. Today there are approximately 3 000 zones in 135 countries worldwide.⁹ In 2007, total exports from FTZs were estimated at USD 400 billion.¹⁰ The Colon Free Zone in Panama, the world's second largest FTZ, generated USD 8.6 billion in exports and re-exports in 2008.¹¹ Zones play a vital role in

⁹ Akinci *et al* (2008), p. 7.

¹⁰ Akinci *et al.* (2008) These statistics were derived from a database developed by FIAS in close consultation with the World Economic Processing Zones Association (WEPZA), and the International Labor Organization (ILO). Date from an ILO document dates April 2007.

¹¹ U.S. Department of Commerce (2007).

economic growth and development through increased exports, foreign exchange earnings, and employment generation. Other zones serve as catalysts for innovation, bringing new industry knowledge and manufacturing to an economy and a region. Single factories can also be granted the same special status as FTZs, which allows for a manufacturer to benefit from the regime without being subject to the geographic constraints most often associated with FTZs.

23. Modern zones have played a significant role in the global economy since the middle of the 20th century and they continue to develop and change to meet the demands of international businesses. There has been a tremendous growth in FTZs globally in the last four decades. Zones began to develop in Latin America and East Asia throughout the 1960s and 1970s and new development in South Asia, South America and sub-Saharan Africa began in the 1980s followed closely by new programs in Central and Eastern Europe, the Middle East and North Africa. In 1970, 30 countries had 80 free zones with exports totalling USD 6 billion. Overall a few regions and countries have the largest concentration of FTZs. The United States has 161 active zones and exported more than USD 40 billion¹²; China leads Asia with 187 EPZs with total exports of USD 145 billion followed by Indonesia, Philippines, Thailand, India, Taiwan and S. Korea.¹³ Generally, Hybrid EPZs are the preferred model in many Central and Eastern European countries as well as in many Latin American countries. Free Trade Zones have been the traditional choice among Middle Eastern and North African countries but are a relatively recent introduction in Asia where zone development has focused on export manufacturing and therefore the EPZ and SEZ models.

2.3 Privatization

24. The way FTZs have been owned, operated, regulated, and governed over the past 30 years has changed dramatically. The greatest shift has been from public to private sector development, ownership, and operation of zones worldwide. In 2005, 62% of the 2 301 zones in developing countries were private sector developments compared to the 1980s when less than 25% of the zones worldwide were private¹⁴. This shift has been a result of the knowledge that zones can be very profitable when one operator takes on a number of elements of zone administration, taking advantage of economies of scale. In addition to those zones that are 100% privately owned and operated, a number of public-private partnerships have been developed. Governments also provide incentives to private zone developers.

Private and Public Sector Zones in Developing and Transition Economies ¹⁵			
Region	Public Zones	Private Zones	Total
Americas	146	394	540
Asia and Pacific	435	556	991
Sub-Saharan Africa	49	65	114
MENA	173	40	213
Central/Eastern Europe and Central Asia	69	374	443
Total	872	1 429	2 301

25. The wave of privatization has provided tremendous liberalization in zone development which has resulted in the creation of more FTZs with expanding purpose and privileges and greater automation to simplify bureaucratic procedures. Zones have a far more varied clientele now including retailers, housing and professional services.

¹² Free Trade Zones Board (2009).

¹³ Akinci *et al* (2008), p. 27.

¹⁴ Akinci *et al* (2008), p. 2.

¹⁵ Akinci *et al* (2008).

26. Different countries have adopted different models for the operation of zones. In some, public authorities operate the zones directly. In others zones are designated by government and then run by private sector operators. There are other combinations. In some countries the zone authority becomes almost a substitute ministry and can provide a one-stop shop for government services, avoiding bureaucracy, delay and other problems. Many countries believe that zones provide a way of kick-starting export-led, economic development and modernising legislation. Zones can pilot internationally competitive regimes ahead of economic reform applying to the entire territory of a state. There can be spill-over effects as development in the zone enriches its surrounding region.

CHAPTER 3: VULNERABILITIES OF FREE TRADE ZONES

27. As specific operating areas, zones vary widely from country to country and within an individual jurisdiction the operators, regulators and requirements may be different. As there are not necessarily standard approaches within zones it can be a complex matter from which to gain a global snapshot. As separate customs areas created to encourage trade and foreign direct investment, FTZs are subject to unique laws, regulations, and oversight to take account of their role in job creation and economic development policies. These features provide opportunities for legitimate business but also present weaknesses which expose it to misuse by criminal elements. The existence of vulnerabilities in a system makes it attractive for money launderers and terrorist financers. Although zones vary in order to provide different benefits to countries and regions, they present similarities with regard to their vulnerabilities which are developed through the report.

3.1 Application of AML/CFT measures in Free Trade Zones

28. AML/CFT standards and guidance which address this specific sector (*i.e.*, FTZ) are relatively new although the CFATF and Aruba in particular have been researching and attempting to address this issue for several years. While there is a great deal of knowledge and awareness of AML/CFT issues within the financial sector, this knowledge and awareness does not often extend to businesses and in FTZs.

29. Many of the rules and regulations governing FTZs are outdated. Over the past 30 years FTZs have been developing rapidly, not always keeping up with the latest AML/CFT legal and regulatory developments. As such, many of the laws and regulations governing FTZ don't take into account the ML/TF vulnerabilities and the risk of illegal activities. Therefore, a clear challenge of FTZs is the unique balance of promoting a business friendly, open environment with the vulnerabilities that can arise in a uniquely operated area with minimal or no regulatory oversight.

30. A number of jurisdictions do not apply the same AML/CFT regulations in the zone as in the rest of the country. In particular the regulations that relate to preventatives measures such as reporting large-value currency transactions and, in some cases, Suspicious Transaction Reports (STRs) as they relate to financial institutions and businesses operating in the zones.

31. Perhaps more importantly, some businesses located in FTZs fall outside of the AML/CFT legal and regulatory framework because their activity or operation falls outside the scope of those traditional financial sector providers located onshore. Therefore, the AML/CFT provisions don't apply to businesses and activities within these special areas.

32. As mentioned above, the use of cash in FTZs continues to be important because it is easy to use in trade transactions. Cash does not require financial institutions and presents particular ML/FT risks because of its portability, anonymity and lack of an audit trail. Moreover, even if banks outside of the FTZs are involved in the trade transactions, they are less able to manage ML/TF risks because of the others vulnerabilities of the zones (opaqueness and relaxed oversight). However financial institutions in FTZs also present risks which are examined through red flag indicators in the following chapter. In this respect, the integration of cash into a jurisdiction's financial system is often facilitated by the presence of financial institutions in the zones.

3.2 Relaxed Oversight and Lack of Transparency

33. The scope and degree of Customs control over the goods introduced, and the economic operations carried out in FTZs, vary from one jurisdiction to another. Consistent with the purposes of establishing free trade zones, goods introduced in a FTZ are generally not subject to the usual Customs controls. There is therefore a risk of exploiting the FTZ system for commercial fraud.

34. Goods introduced in a FTZ can undergo various economic operations, such as transhipment, assembly, manufacturing, processing, warehousing, re-packaging and re-labelling as well as storage for timely marketing, delivery and transhipment. The tracking of shipments, especially for repackaging is a key element in the control of FTZs. The same shipment may use FTZs as a base around the globe for no other purpose than to launder funds.

35. Although the conditions for setting up FTZs may be regulated by the Customs or relevant management authority, and the kinds of operations may be subject to the approval of these authorities, the degree of Customs intervention is often insufficient or even absent. Commercial operations carried out under such lenient controls can lead to cutting off the monitoring of the international supply chain.

36. Licensing procedures and supervision of activities in FTZs are often complicated and bureaucratic which can lead to insufficient oversight. There is a lack of clarity regarding regulations covering the control of free trade zones. In some cases it is not clear if the government or the Customs authorities have the jurisdiction to exercise controls. The lack of control by Customs raises problems in the fields of intellectual property, security of the supply chain, valuation fraud and other non-fiscal offences.

37. Finally, responses to the questionnaire indicate that the controls are often carried out by random selection more than on risk assessment or indicators and that no clear procedure, authority, or documentation is identified to organize and execute the examinations.

38. Possible actions to prevent and detect commercial fraud cases exploiting free trade zone systems should be examined from two different viewpoints, namely *i)* maintenance of appropriate level of Customs control over the admissibility of goods and the business operations carried out, and *ii)* appropriate assessment of the risk associated with goods arriving from free zones.

39. Most zone authorities operate separate company formation services from those that exist in the rest of the jurisdiction and market the ease of setting up a legal entity in an FTZ to attract business. Many zone authorities request little or no ownership information of the companies interested in setting up in the zone. As a result, it is simpler for legal entities to set up FTZs and hide the name(s) of the true beneficial owners. FTZs that offer company formation services also by-pass AML regulations that may apply to the legal entity formation process outside of the zone. This provides a means to access the financial system in the same jurisdiction or others offshore. Legal entities setting up in FTZs should be subject to the same requirements as legal entities in the rest of the country. This would provide for greater transparency within the country and provide substantial assistance to law enforcement when conducting investigations into companies for money laundering, tax evasion, or other criminal activity.

40. Analysis of the questionnaire responses showed that jurisdictions permitted a wide array of documents and procedures to set up businesses in FTZs and that in all cases the zone authority must approve the business operations. The questionnaire responses also verified the lack of beneficial ownership information or AML obligations as it relates to company formation. The responses also established that physical presence in the zone is not always a requirement for establishment in the area. The case studies also demonstrate this is clearly an area to examine in order to address the need for greater transparency globally in regard to the businesses operating in the zones.

3.3 Lack of Systems Coordination

41. Customs document management and administration varies by region, country and individual customs area including FTZs. Theoretically zone transactions must be reported to zone authorities and Customs authorities, however there are two different most often not integrated systems. Overwhelmingly Customs authorizes use a mix of software and paper to monitor shipments in and out of FTZ and Customs Bonded Warehouses (CBW) internationally. The lack of a clear standard related to Customs clearance makes it very difficult to monitor. Most FTZs software systems, if they exist, are not integrated to the Customs IT systems which include all ports. A paper based system or a hybrid of paper and IT as it is in most cases requires longer to monitor and check against related documents (in-bound vs. outbound). It is also difficult to analyze data for trends related to specific ports, zones or businesses.

42. The questionnaire confirmed that a majority of jurisdictions use a mix of paper and IT-based systems and that few are fully integrated. Six out of ten questionnaire responses showed that zone management used a mix of IT and paper-based systems to track incoming and outgoing shipments into the zone. Six out of ten questionnaire responses also indicated that Customs used a mix of IT and paper systems. Only two responses to the questionnaire indicated that the data from the zone authority and the Customs authority were integrated using computer software. This reflects a lack of coordination between Customs systems and zone management systems. In addition to Customs and zone authorities, additional federal or State regulatory or law enforcement authorities may be involved in various capacities within the zone. The operational cooperation and coordination between competent authorities needs to be addressed to avoid a gap in the control of FTZs including the role of FIUs.

3.4 Vulnerable Types of Goods

43. Certain types of goods are particularly vulnerable due to their value, size, high tariff rate, volume of trade and potential for IPR violations. Any one or a combination of these elements makes them attractive for potential misuse, especially via FTZs, because of their role as an open platform for trade and the businesses operating in these zones.

Cigarettes, Alcohol and other high tariff items

44. Cigarettes, alcohol, and other high duty items are more vulnerable to smuggling and contraband due to the increased revenue that can be generated by not paying tax. The high volume of containers, the ease of repackaging and relabeling shipments within the zones, and the lack of oversight make FTZs ripe for exploitation of smugglers attempting to avoid high duty and tax rates on cigarettes and alcohol. Historically some jurisdictions such as Aruba developed a parallel market for cigarettes, notably for the Colombian market. This market was the result of agreements between the manufacturers and licensed distributors, whereby cigarettes were “smuggled” into the country with the alleged knowledge of the manufacturers and distributors. The goods purchased by Colombians left Aruba legally, only to be smuggled into Colombia.

Luxury Goods and other goods most often used in violation of IPR

45. IPR violations are difficult to detect and are difficult to substantiate at the time of the cargo inspection. In an environment with few inspections and large cargo coming in and out, it would be relatively easy to take advantage of relaxed oversight in order to import, repackage, re-label and export textiles or IT equipment into the country or onto a third country. Repackaging in FTZs is one of the tools used by criminals to cut the links with the real country of origin or destination.

Carousel VAT and electronic items

46. Electronic items constitute high volume of trade and are therefore more vulnerable for VAT carousels fraud where tax is illicitly reclaimed. The higher the volume, the higher the refunds will be. FTZs can be misused in these fraud schemes because they offer a large market with relaxed oversight for the trade of the items concerned.

CHAPTER 4: FREE TRADE ZONES AS A METHOD USED BY ILLICIT ACTORS

47. The cases described under section 4.3 demonstrate the ML/TF risks and vulnerabilities associated with FTZs which were identified in the previous chapter. These cases illustrate how FTZs have been exploited by criminals as a means to initiate and facilitate illicit financial activity to include traditional and complex money laundering techniques. Moreover, FTZs are misused to commit the predicate offense (*e.g.*, smuggling) and to facilitate the laundering of the illicit proceeds.

4.1 Predicates

48. Responses to the FTZ project team questionnaire show a variety of ways that FTZs can be misused in order to move and launder the proceeds of crime and/or to finance terrorism. In cases of money laundering within FTZs, 19 predicate offenses were identified. The most commonly identified predicates were: participation in an organized criminal group and racketeering, illicit trafficking in narcotics, fraud, counterfeiting and piracy of products, and smuggling. A number of countries also listed illicit arms trafficking, illicit trafficking in stolen or other goods, and forgery.

Predicate Crime	Number of Responses from the FTZ Questionnaire
Participation in an organized criminal group and racketeering	6
Terrorism, including terrorist financing	1
Trafficking in human beings and migrant smuggling	2
Sexual exploitation, including sexual exploitation of children	1
Illicit trafficking in narcotics	8
Illicit trafficking in stolen or other goods	4
Corruption and bribery	3
Fraud	6
Counterfeiting currency	1
Counterfeiting and piracy of products	6
Environmental crime	0
Murder, grievous bodily injury	0
Kidnapping, illegal restraint and hostage-taking	1
Robbery or theft	2
Smuggling	9
Extortion	2
Forgery	4
Piracy	2
Insider trading and market manipulation	1

4.2 Trade Based Money Laundering

49. TBML is one of three main methods by which illicit actors launder the proceeds of crime. TBML schemes include under and over-invoicing, phantom shipments and other falsification of the value or quantity of a shipment including multiple invoicing of goods in order to justify the transfer of value from one jurisdiction to another. However TBML schemes often include a number of complex layers including cash, front companies, currency exchange, and the purchase and shipment of goods with illicit proceeds.

50. The FATF has looked at the vulnerabilities associated with the misuse of the trade system through the TBML Typologies in 2006 and the Best Practices Paper in 2008, however to date there are no international standards to address TBML. By definition businesses located in FTZs utilize international trade for a majority of transactions and zones facilitate and simplify these transactions. The lack of AML/CFT safeguards related to TBML poses a particular vulnerability in FTZs.

51. A successful TBML scheme often includes false documentation which misrepresents the contents and/or volume of cargo. The size and scope of FTZs, some cities in themselves, makes it difficult to effectively monitor incoming and outgoing cargo, repackaging, and relabeling. Some FTZs export billions of dollars per year but have fewer competent authorities present to monitor and examine cargo and trade transactions. The relaxed oversight in FTZs makes it more challenging to detect illicit activity and provides an opportunity for misuse. As a result, FTZs provide a setting in which certain TBML schemes are more easily conducted.

52. TBML and other money laundering schemes rely on the ability of the perpetrator of the crime to distance themselves with the illicit proceeds. Shell companies enable illicit actors to create a network of legal entities around the world linked to financial institutions. The lack of transparency in the company formation process in FTZs permits companies located in FTZs to create layers of transactions which are difficult if not impossible for law enforcement to follow.

53. The TBML Best Practices Paper suggests ways to improve the collection and effective use of trade data to combat TBML. This is particularly relevant to many FTZs which do not have integrated import and export data from Customs and the zone authority. The lack of trade data which can be effectively mined by law enforcement creates a black hole for investigations and shipments entering and exiting FTZs worldwide. It is significant impediment to effectively combating TBML in FTZs.

54. TBML is easier to perpetrate when a series of systemic vulnerabilities exist in one place. FTZs represent an environment in which this occurs through relaxed oversight, lack of transparency, trade data and systems integration. As a result FTZs facilitate the TBML and related illicit activity.

4.3 Case Studies

Case Study 1: Bulk Cash Smuggling

Large sums of cash were declared to Customs at local airports by couriers who claimed they were bringing cash payments to companies based in the FTZ. The case involved professionals and businesses and a request from jurisdictional authorities following an international ML investigation.

The proceeds of illegal activities (presumably drug trafficking) were amassed in Country I from where the money was transferred briefly to Country II and from there carried on commercial flights to Country III, to the FTZ by cash couriers who were citizens of Country II, of whom 11 were identified.

Once the money had been brought into Country III and declared to the Customs authority the couriers handed it over to individuals in the FTZ where the money was used to pay for merchandise for export.

The scheme was facilitated by local customs brokers, lawyers and other professionals.

Over a period of five months the couriers from Country II brought more than USD 13 400 000.

In this case the cash couriers declared the cash upon entering the country however there was no investigation or discovery of the movement and trends in the movement relevant to the cash. This case illustrates the need for competent authorities to target, identify and investigate suspicious cross-border movement of cash. There was also no additional requirement to declare cash entering the FTZ nor was the requirement for businesses operating in the zone enforced. This lack of AML obligations and enforcement represents a critical AML/CFT vulnerability of FTZs.

Case Study 2: Trade Based Money Laundering/Black Market Peso Exchange/Terrorist Financing

This case involved criminal structures operating in Colombia, Central and South America, Europe, Asia, the Middle East, Mexico and the United States. The investigation uncovered multi-ton quantities of cocaine being shipped to various locations worldwide and uncovered a massive Colombian/Lebanese drug trafficking and money laundering cell operating globally with direct links to the Islamic extremist organization Hezbollah in Lebanon. A portion of the drug proceeds sold in the Middle East was directed to Hezbollah leaders operating in Lebanon to ensure that the traffickers could operate in certain areas in the Middle East.

The network also had a central money laundering operation based in Country I's Asian based commodities trade. The network utilized Asian based financial institutions and trading companies to launder in excess of USD 15 million USD monthly in narcotics proceeds to Colombia via the black market peso exchange (BMPE). Proceeds of drug were sent to Country I based business accounts which were controlled by Colombian business owners who would purchase the currency from peso brokers and ship the goods to South America. Traffickers would receive the money up front or subsequent to the sale of goods. The network was able to funnel narcotics proceeds through Country I back to Colombia to the drug trafficking source. A number of businesses in the Colon Free Zone (CFZ) in Panama participated in this scheme and the zone was a central point of delivery for bulk cash proceeds of drugs.

There was also a related BMPE scheme based in Miami. Electronics companies in Miami would accept drug money from US bank accounts and purchase computer and electronics parts which were shipped to Colombia. The Colombian business owner would sell the parts and transfer the proceeds to the trafficker less a commission.

Transactions between companies in the zone as well as import and export records are maintained on paper and the CFZ administration and Panamanian Customs systems are therefore not integrated making it very difficult for accurate and up to date tracking of shipments in the zone. The lack of transparency of transactions taking place in the zone makes it very difficult to track shipments to and from the zone as well as between companies in the zone, particularly given the size of the CFZ. The zone administrator is currently in the process of updating the system to require companies within the zone to file transactions electronically and there is also a plan for this to be integrated with the Customs system.

Some businesses in the CFZ routinely accept large volumes of cash for wholesale quantities of merchandise. The presence of financial institutions including banks and money services businesses provides further opportunity for the integration of cash into the financial system. Within the CFZ filing cash transaction reports (CTR) and suspicious transaction reports (STR) is required of all businesses, however the practice of filing is not enforced and customers paying in cash for goods in the zone are not subject to any customer due diligence procedures. All STRs and CTRs filed in the zone go first to the zone administrator who forwards them on to the financial intelligence unit.

Case Study 3: Smuggling and Tax Evasion

A U.S. company received shipments of alcohol and tobacco from domestic and international suppliers at Customs Bonded Warehouses (CBW) and FTZs. The company would repackage the merchandise and ship it to out under the name of another company to other CBWs and FTZs, ultimately smuggling it into markets for sale. The proceeds were laundered primarily through the purchase of real estate in various jurisdictions. Investigators were able to determine the company behind the criminal activity used double invoicing, false Customs forms, a counterfeit Customs stamp, and forged signatures of Customs officials to facilitate the smuggling, transhipment, and sale of the untaxed cigarettes. One element of the scheme was to sell to foreign diplomats.

During the execution of a search warrant at the U.S. company business location, law enforcement seized USD 947,195 worth of untaxed alcohol and cigarettes that had been prepared to be smuggled out of the United States. The investigation resulted in the arrests and convictions of 12 people who were also involved in an illegal weapons and drug distribution organization associated with the Abu Sayyaf Group, a terrorist organization based in the Philippines.

This case exposed three main vulnerabilities in FTZ and CBWs. First, the lack of processing standards and associated due diligence. Ports operate differently and apply different standards. Some ports require that ship handlers must receive pre-approval in person with all relevant documentation prior to making deliveries. Other ports require that the delivery take place first and only then are some of the relevant forms supplied. The lack of a standard requirement exposes a vulnerability in the system.

Second, All transactions are initially conducted via paper and the entry into an automated system is not standard in all ports. This makes it easier to facilitate the diversion. Some ports input the movement of bonded merchandise, but other ports do not exposing the vulnerability of some ports.

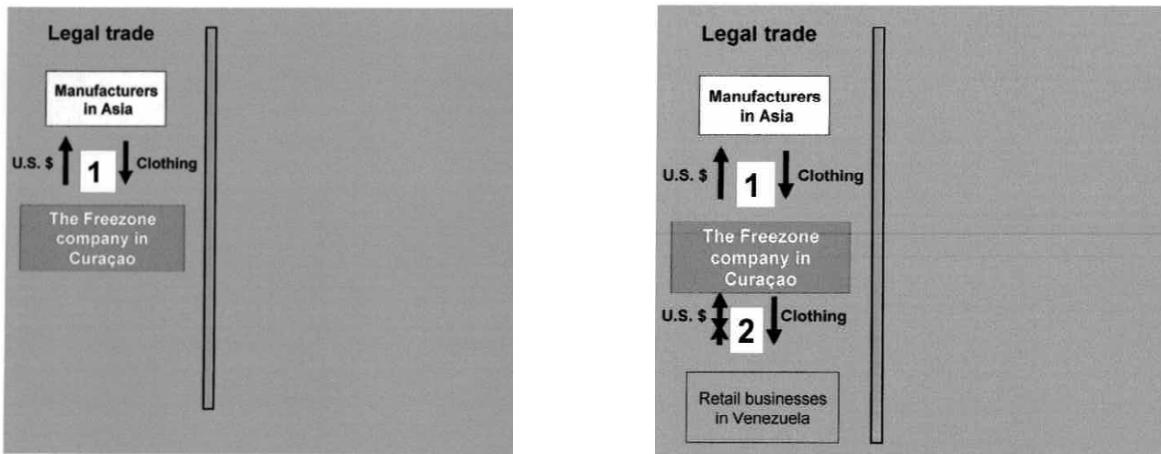
The last vulnerability involves repackaging and smuggling within FTZs. Activities within zones are not closely monitored. Containers and shipments enter the zone and a company warehouse where repacking and labelling may take place as it does in this example. This provides a way to change the country of origin, company name, contents, quantity and price. Lack of oversight may also provide an opportunity to smuggle goods into or out of FTZs or CBW.

Case Study 4: Trade Based Money Laundering/Black Market Peso Exchange

The Kings Cross investigation, as it is called, demonstrates a connection between organized crime and transactions involving a company based in the Free Zone in Curacao. The investigators discovered a variant on the Black Market Peso Exchange in which the Curacao-based business operated as a currency exchanger for narcotics traffickers.

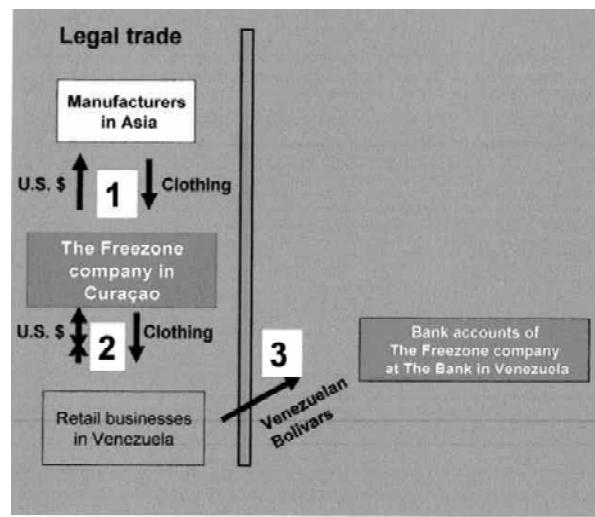
Step 1:

The Free Zone company was a clothing wholesaler that bought merchandise from Asia. The goods were shipped to the Free Zone in Curacao by container ship. The clothing was stored tax-free in the company's Free Zone warehouses. The terms of payment were in U.S. dollars.



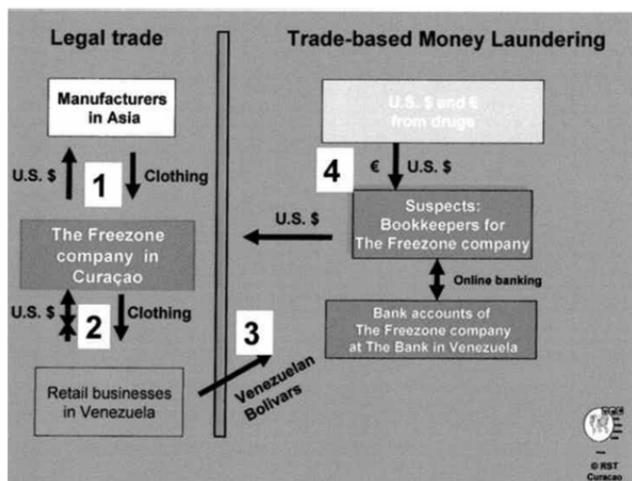
Step 2:

About 70% of the clothing is purchased by retail stores in Venezuela. Due to strict currency restrictions in Venezuela, retailers found it difficult to acquire U.S. dollars. Many companies including the one featured in this case study are forced to look for alternative means of payment.



Step 3:

The Free Zone-based clothing wholesaler agreed to accept payment in Venezuelan Bolivars to an account at a bank in Caracas. The Free Zone business opened three accounts in Caracas for this purpose in the names of three employees, including the bookkeeper. The employees in question obtained Venezuelan nationality for this purpose with little trouble. The accounts were managed online from Curacao.

**Step 4:**

The Free Zone company received the proceeds of illegal drug sales, millions of U.S. dollars and euros, in cash, which was deposited into the Free Zone company's bank accounts in Curacao. The company claimed the money was from the sale of clothing in Venezuela. The books for the Free Zone company did not include the bank accounts in Curacao. The Free Zone company bookkeepers also engaged in foreign exchange dealings by selling some of the cash to other companies.

The bookkeepers earned money through commission fees charged to customers and the Free Zone business was one of many businesses that purchased dollars from them. The Free Zone company exchanged Bolivars for dollars and drug cartels had the proceeds of narcotics sales converted into a clean currency.

The Kings Cross investigation resulted in 11 arrests, the confiscation of 3,500,000 Netherland Antilles Guilders and 1 billion Venezuelan Bolivars (approximately USD 500,000) as well as real estate and luxury cars.

This case demonstrates the use of a legitimate business as a money exchanger for narcotics traffickers. This business is acting as a financial institution for an illicit actor and by-passing relevant financial reporting requirements and regulations.

More information about the companies and company operations based in FTZs specifically, and in international trade more generally, would provide greater transparency.

In this case the zone demonstrated less supervision and the role of Customs and Inland Revenue was less due to the relatively small fiscal interest represented by the zone.

Case Study 5: International Wire Transfers/Use of Complex Corporate Structures and Schemes/Multiple Accounts and Transactions/Terrorist Financing

A key suspect in Euskadi Ta Askatasuna (ETA), a designated terrorist organization by Canada, the EU, the UK and the United States, was a shareholder of three companies set up in Spain. These legal entities supposedly sold computers and electronic equipment, but in reality they did not conduct any significant business. However, their bank accounts showed large cash deposits including large denomination Euro notes, and wire transfers.

Persons involved with these legal entities created companies in Costa Rica which were later transferred to Mr. U, owner and manager of company 'IT' a computer and electronics business based in a free trade zone in Costa Rica, which engaged in regular transactions with the legal entities in Spain. The bank was located in the free trade zone and AML/CFT obligations do extend to all financial institutions operating in the zone.

'IT' was supposedly in the business of importing computer parts, assembling and selling computers domestically and internationally. In practice, it had very little activity. However, within a six-month period IT received approximately € 3,400,000 in transfers from the legal entities in Spain and sent back almost the same amount. IT explained to the bank that the money was being sent from its parent group of companies in Spain to support its expansion in Costa Rica. Also, that the outgoing transfers were payments of imports from Spain.

The Costa Rican authorities believe that 'IT' was laundering the proceeds of illicit activity in exchange for a regular infusion of cash to continue day to day operations of the company. Although AML obligations did apply to the bank, the frequency of international transactions and the close proximity to customers may have resulted in relaxed oversight. Mr. U visited the bank on a daily basis and became personal friends with the bank manager and account executive associated with the account. As a result of this case, Costa Rican regulations now require banks to rotate employees of FTZ branches every three months.

Vulnerabilities associated with the FTZ:

Companies located in the zone are vulnerable to money laundering and terrorist financing. Although AML obligations extended to the bank, relaxed oversight of the institution permitted the activity to take place. Draft FIU regulations will require FTZ users to submit threshold-based reports to the FIU (cash and non-cash). The competent domestic authority that oversees FTZs would enforce this requirement.

At the time of this investigation terrorist financing was not a crime in Costa Rica (2008). This case facilitated the passage of legislation to make terrorist financing a crime.

Case Study 6: Customs Fraud

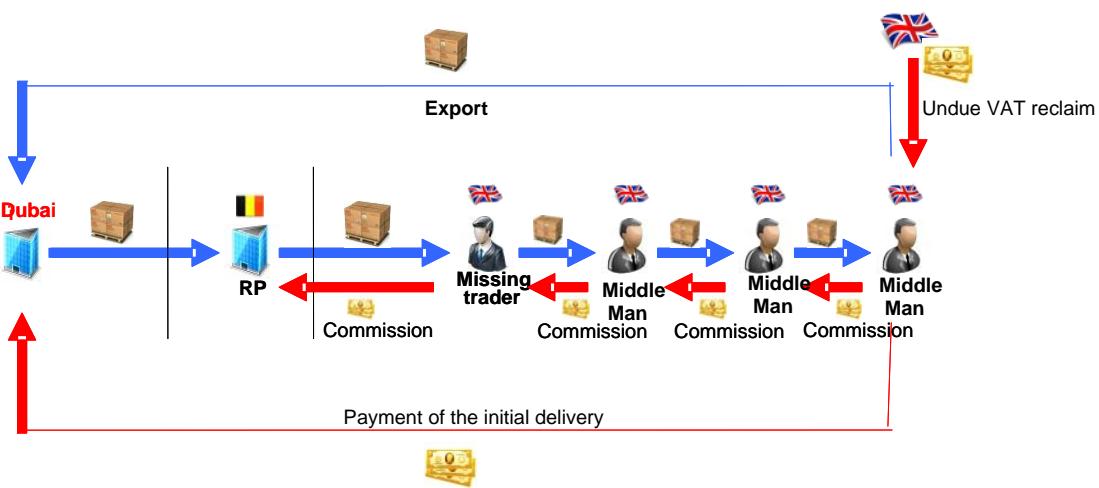
A particular Belgian company imported textile products and used textile-certificates (to prove the origin) from the United Arab Emirates (U.A.E.), which means that the goods were produced there or got a sufficient transformation there (depending on the type of finished product). The invoices and certificates came from 2 companies established in the Sharjah Airport Free Zone. It is very unlikely however that there would be production entities in this airport area. On the official site of this FTZ 16 production entities are not mentioned, only warehouses, offices, container parking areas. On the site is also mentioned that "the SAIF –Zone was built to promote and enhance business in an atmosphere free of regulations and red tape". This lack of regulations made it impossible for investigators to prove that the origin of the goods was not U.A.E. but another country from which import wouldn't have been possible in this particular case because import licenses were compulsory. Moreover the whole documentation and invoice circuit was seemed to be false so the commerce was especially vulnerable to abuse for money laundering purposes also.

This case demonstrates the use of fraudulent trade documents, in this case certificates of origin, to disguise the true origin of goods in order to evade duties and taxes and more generally facilitate/allow import/export trade. The vulnerabilities of zones are also showed as a result of relaxed oversight and enforcement as well as opaqueness of these areas.

This case also illustrates the challenges associated with discerning between customs fraud and Trade Based Money Laundering. This case does not indicate the transfer of value through the international trade system, rather the misuse of FTZs and the international trade system to perpetrate the predicate offense.

Case Study 7: Carousel Fraud17: “Dubai Connection”/Use of Corporate Structures/Trade Based Money Laundering

The Belgian company RP is involved in international VAT carousel fraud. It plays the role of “in and outer” by purchasing properties in Dubai and invoicing British customers. The latter are “missing traders” to the detriment of British taxes. The invoice scheme in the United Kingdom involves various middlemen that get involved following the missing trader as well as an exporter that in the end sells the goods in Dubai and wants to reclaim the VAT from the UK Treasury (reclaim fraud). In the invoicing scheme every link assigns a payment order (consisting of a commission) to the following link. The goods are paid by the last link in the United Kingdom, directly to the initial supplier in Dubai. This last amount includes the British VAT. As such the amount of evaded tax is safely transferred to a bank account in Dubai and can be redistributed among the different organizers of this fraud.



The payment to the company in Dubai for the initial delivery is not made until the fraud cycle is complete in Europe. This case exposes the vulnerabilities associated with legal entities in the free trade zone, the open market created to promote trade and the challenge of tracking financial transactions related to business operating in the zones.

Case Study 8: Misuse of Legal Entities

This case resulted in the thorough analysis of financial flows existing between the head office of a Belgian society (in Belgium) and its subsidiary company located in a free zone of the United Arab Emirates (U.A.E.). Most of the information came from the penal file.

The company B used a foreign subsidiary company to remove the funds of the head office (advances on funds, needs for liquidities) and to transfer them to the subsidiary company in the U.A.E. These funds were also transferred to other free zones (Madera). The transfer of these funds via the U.A.E. made it possible for the company B to set up a real estate company for a precise real estate project in another European country. The analysis of the accounts in Belgium did not reveal the final destination of the funds and this company (“except perimeter of consolidation”) was unknown. This real estate project of great importance was carried out. Then, the actions of this company were sold and the benefit of this sale transferred to the subsidiary company in the UAE.

Part of these funds then returned to Belgium in the form of dividends and was deducted from the taxable amount (Advance Corporation Tax). The difficulties encountered in this case, can be generalized and result from:

- The legislation in the FTZ is not transparent.
- The absence of ‘official’ documentation about the FTZ¹⁸.
- No preventive conventions of double taxation at the time with the U.A.E. (Impossibility of obtaining an adequate collaboration).
- Use of false invoices to dissimulate the operation.
- Impossibility of checking the identity of certain recipients.
- Complication of the situation by using a cascade of free zones (Emirates, Madera).
- Problematic bank secrecy.
- Use of offshore companies

The detection of similar operations is almost impossible. In this particular case, the consultation of documents that were not part of the book keeping, seized by the Court, made it possible to give another interpretation of the accounting and revealed the offshore companies. The existence of subsidiary companies in FTZ, the deduction of the A.C.T on the level of the corporate tax, the existence of high value cash transactions in relation to (real estate) projects abroad constitute considerable ('red flag') risk indicators.

Case Study 9: Contraband Smuggling and Tax Evasion

This investigation involved a money laundering and contraband cigarette smuggling organization led by PAUL. The large-scale organization smuggled contraband cigarettes into the United States from China and subsequently structured cash deposits to avoid payment of millions of dollars in Washington State tax revenue. The cigarettes were imported into an FTZ located in Hawaii, then diverted to the state of Washington, rather than to the claimed destination, a Native American reservation in Idaho. PAUL then sold the illegally gained cigarettes in Washington, and laundered the proceeds.

As a result of the investigation 16 warrants were executed in Washington and in Hawaii, which yielded 1 451 697 million packs of contraband cigarettes, one vehicle and over USD 600 000. This seizure of the cigarettes reflects USD 2 068 668.20 in revenue loss to the State of Washington, the second largest such seizure in the history of the State. Paul and his associates were eventually indicted for smuggling and trafficking of cigarettes, money laundering, and structuring financial transactions.

¹⁸

Ex. information on the internet about U.A.E.: www.emiratesfreezone.com, www.uaefreezones.com.

CHAPTER 5: CONCLUSION AND POLICY CONSIDERATIONS

55. Free trade zones worldwide vary tremendously in order to provide different benefits to countries and regions. Although zones differ in terms of the activities and structure, there are fundamental similarities.

56. FTZs provide platforms for economic growth and are often the international commercial centre of a country combining a large port with infrastructure and a hub of growth and innovation. FTZs are often included in economic development plans for developing nations but are also seen as hubs of growth in the developed world. Zones continue to be developed and managed both publicly and privately and combine a wide range of administrative authorities which mix paper-based management with information technology. Modern zones have played a significant role in the global economy since the 1950s and they continue to develop and change to meet the demands of international business.

57. Globally, FTZs are designated geographic areas considered outside of the customs area. They offer duty and tax free access and often incorporate a number of other incentives for the businesses. Zones also combine a variety of administrative authorities, private and public, which can cause confusion and burden when it comes to oversight of the zone. The relevant competent domestic authorities operating in zones and their staff are often not prepared for the unique zone environment nor trained to ensure adequate enforcement of AML/CFT concerns. This can result in relaxed oversight and management in terms of shipments entering and exiting the zone as well as the intra-zone transfer of goods sold from business to business within the zone. Many zones also share the combination of paper and information technology-based record keeping for shipments and zone transaction which results in the lack of integration between the relevant zone authorities and Customs authorities. This can also result in relaxed oversight and enforcement.

58. The size and scope of zones world wide – over 3 000 zones throughout the world, many co-existing in cities and regions of significance to the international financial system – demonstrate the importance to the global economy on free trade zones. A jurisdiction operating without an FTZ within its borders is as susceptible today to the vulnerabilities posed by zones throughout the world. The world is connected through the international financial system and a vulnerability to one is a concern for all. As one vulnerability is closed, illicit actors move to areas with less regulation and oversight.

59. In today's global economy access to the financial system in any jurisdiction effectively enables access to the international financial system through the correspondent relationships and interconnectedness of the modern global financial system. Although this is widely recognized when it comes to our financial institutions and shared borders, this level of awareness has not yet been brought to the international trade system and more specifically free trade zones. While greater scrutiny has been paid to certain types of transaction others have yet to fully address the relevance and importance of FTZs.

General key findings related to all Free Trade Zones:

60. There is tremendous variance in the oversight and management of zones worldwide which, along with a wide variety of zone activity from manufacturing to retail operations, make standard setting a clear challenge.

61. Case studies identified a variety of methods used to move and launder the proceeds of crime. They reflect links between FTZs, cash transactions, smuggling, VAT carousel fraud schemes, shell companies, and TBML.

62. It is necessary to balance the economic benefits of FTZs including foreign direct investment and job creation, particularly in developing countries, with ML/TF vulnerabilities.

63. The lack of integrated IT systems in the zones to monitor transactions and movement of goods in the zones on a timely basis is a principal vulnerability.

Key findings related to existing FATF standards:

64. The adoption and enforcement of AML/CFT regulations in the zones is an area which needs to be further clarified and addressed.

65. Often the nature of business within zones appears to be based on cash transactions. (e.g. R. 19, SR. IX)

66. The lack of transparency of businesses operating in zones is a vulnerability which is related to FTZ supervision as well as financial or commercial transactions taking place in these zones. It is clear that specific ML/TF risks of these zones are not considered. (e.g. R. 5, 33)

67. The lack of international cooperation between competent authorities and law enforcement including Financial Intelligence Units within FTZs was highlighted by a number of case studies complicating the fight against fraud and the laundering of money channelled through these zones. (e.g. R. 36 – 40)

Key findings not related to existing FATF standards:

68. Trade Based Money Laundering is a prevalent method used demonstrating that TBML is a substantial vulnerability in FTZs.(e.g. see Best Practices Paper on TBML)

69. The misuse of Free Trade Zones impacts every jurisdiction in the world, regardless of whether or not a country has FTZs. In order to effectively address the ML/TF vulnerabilities there must be a global approach to the solution.

Issues for Consideration

70. This report highlights the money laundering and terrorist financing threats and vulnerabilities of free trade zones based primarily on law enforcement findings through case studies. Based on the elements presented in this report, the following issues are recommended for further consideration:

71. The issue of FTZs should be examined in the light of the current FATF 40+9 Recommendations.

72. Awareness raising should be conducted to the private sector and relevant competent authorities, namely FTZ administrators and Customs authorities, FIUs and bank regulators to better identify the cases of FTZs misuses by criminals. The need for a stronger focus on training programs is crucial and will raise awareness about the potential misuse of FTZs.

73. There is a clear need to improve the cooperation between competent authorities at the national and international level as well as with the private sector as it relates to FTZs. The exchange of information is a key element to better identify the illicit activities (e.g. fraud schemes) using FTZs.

74. Greater consideration should be given to increasing transparency, regulations and effective controls by appropriate procedures which must be apply in all FTZs. In that context, further consideration should be given to the existing best practices listed by the report in Annex B and the elements from the key findings.

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ANNEX A: ML/TF RISK INDICATORS

Through the questionnaire and case studies the following red flag indicators for illicit activity in free trade zones were collated.

Red flag indicators associated with financial institutions:

- The method of payment requested by the client appears inconsistent with the risk characteristics of the transaction.
- The transaction involves the receipt of cash (or other payment methods) from third party entities that have no apparent connection with the transaction.
- The transaction involves the use of repeatedly amended or frequently extended letters of credit.
- Wire instructions or payment from or due to parties not identified on the original letter of credit or other documentation.
- Deposits of large amounts of cash US\$ or Euro's, without sufficient understanding or explanation of the underlying transaction.
- Banks lack specific knowledge on understanding of the FTZ business.
- Entity is a company with low capitalisation but it carries out a high number of daily transactions that are disproportionate to its capitalisation.
- Entity has large sums deposited and immediately remitted out regularly.
- Use of fiduciary companies established in FTZ.

Red flag indicators associated with unusual business activity:

- The commodity is transhipped through one or more jurisdictions for no apparent economic reason.
- Circuitous route of shipment and/or circuitous route of financial transaction.
- Transaction involves shipment of goods inconsistent with normal geographic trade patterns e.g. does the country involved normally export/import goods involved?

As part of the questionnaire, jurisdictions were asked specifically what could trigger suspicions or possible investigations. Nine jurisdictions provided potential risk indicator including:

Red flag indicators traditionally associated with TBML: under/over invoicing, multiple invoicing of goods and services, over and under shipment and falsely described goods and services.)

- Significant discrepancies appear between the description of the commodity and the actual goods shipped.
- Significant discrepancies appear between the value of the commodity reported on the invoice and the commodities fair market value.
- The size of the shipment appears inconsistent with the scale of the exporter or importer's regular business activities.
- The type of commodity being shipped appears inconsistent with the exporter or importer's regular business activities.
- Inconsistencies in information contained in trade documents and financial flows, such as names, companies, addresses, final destination etc.
- Declared value of shipment was under-valued compared to the shipping cost.
- Transaction demonstrates links between representatives of companies exchanging goods *i.e.* same owners or management.
- Container shipments being consigned and exported and imported a number of times. An example of this would be the same goods being recycled.
- Transaction involves shipment of goods incompatible with the technical level of the country to which it is being shipped *e.g.* semiconductor manufacturing equipment being shipped to a country that has no electronics industry.
- Order for the goods is placed by firms or individuals from foreign countries other than the country of the stated end-user;
- A freight forwarding firm is listed as the product's final destination.
- Traded goods that are in transit to localities close to the borders.
- Goods that are easily used in bartering schemes (cigars, gasoline, tires, etc) traded to localities close to the borders.
- Direct financing from importer can be associated to international trade frauds and TBML.
- Entity has little or no inventory carried on its premises on inspection or field intelligence.
- A typical transaction in sectors with heavy competition and sensitive to fraud (computers, cars, phone, petrol products, textile, electronics).
- Types of products are more susceptible to ML, such as precious stones and metals, tobacco products, artwork, etc. and should be more closely monitored.
- In the case of services: verification if an invoiced service was actually performed.

Risk indicators associated with shell companies

- The transaction involves the use of front (or shell) companies.
- Overinvoiced exports involving tax haven jurisdictions.
- Using a company with its registered office in a tax haven or an offshore centre carrying out atypical transactions (example: loan to a Dubai company to finance commercial domestic activities in Belgium).
- Entity's only known premises are those of a corporate service provider (*i.e.* likely to be a shell company).
- Intervention of third parties (front men).

ANNEX B: COMPILATION OF BEST PRACTICES AND RECOMMENDATIONS

Based on experience, a number of organizations and jurisdictions have developed best practice and reference tools for the administration and regulation of FTZs and how best to address Trade Based Money Laundering (TBML). Examples from the CFATF, the FATF, Aruba and the WCO should serve as a basis for future work. A number of the recommendations noted in this annex are complimentary to that of others and therefore some unavoidable duplication exists.

1. Caribbean Financial Action Task Force Guidelines.
2. Multilateral Recommendations on Black Market Peso Exchange.
3. FATF Guidance on TBML.
4. Aruba's experience.
5. World Customs Organization instruments and Standards.

1. Caribbean Financial Action Task Force Guidelines¹⁹

The Caribbean Financial Action Task Force (CFATF) first began to look at the money laundering and terrorist financing vulnerability of FTZs in 2000. Members of the CFATF developed recommendations and in 2001 recommended that the governments of the CFATF members implement the following:

Devise, enact, and effectively implement a comprehensive legislative regime affecting Free Trade Zones. The legislative regime must clearly and unequivocally define the term “Free Trade Zone” and must govern all areas of its operations. Areas of Free Trade Zone operations to be governed include, but are not limited to: the granting and revocation of licenses to operate a business therein; record keeping and reporting requirements for these businesses; and, establishing and defining the oversight and supervisory authority, functions, responsibilities, and powers of the Free Trade Zone Authority. Where necessary, such a legislative regime should meet the following requirements:

The Free Trade Zone Authority, if necessary, should be physically present and operate in the Free Trade Zone. The appropriate National authorities should, at minimum, oversee and supervise all operations in the Free Trade Zone and enforce sanction violations of all applicable laws and regulations.

Businesses operating in Free Trade Zones must comply with all applicable laws and regulations and must establish an anti-money laundering compliance program which includes an independent review and internal audits. It is strongly recommended that businesses designate a compliance officer who shall be responsible for monitoring and ensuring implementation of the compliance program.

¹⁹

Caribbean Financial Action Task Force (2001).

Businesses operating in Free Trade Zones should be required to identify their clients and to keep the record of each transaction and to report suspicious activities to the competent authorities.

Free Trade Zone Businesses should be required to report suspicious transactions to the competent authority in the form and manner that the authority directs. Additionally, it may be required that all businesses operating in Free Trade Zones should report to the competent authority all transactions in cash or negotiable bearer instruments exceeding USD 10 000.00 or its equivalent in other currency, or postal or other money orders, travellers checks and third party checks.

Governments should discourage businesses operating in Free Trade Zones from accepting cash payments, or payments in money orders or third party checks, traveller's checks, wire transfers, or other means from parties that are not directly related, as either the seller or buyer, to the underlying transaction. These businesses should, at a minimum, record such transactions and, when determined as suspicious report such transactions to the competent authorities.

Require competent Authorities to make available to regulated businesses current copies of all applicable laws, administrative resolutions, regulations, advisories and directives regarding: the conduct of business in the Free Trade Zone; compliance with all applicable legal requirements; and, advisories regarding suspicious activity and recommended countermeasures.

Require competent Authorities to designate, as part of their core operation, a specialized unit responsible for all matters dealing with the prevention of money laundering and to carry out ongoing related training for businesses operating in the Free Trade Zone. This unit should, at a minimum, produce an instruction manual detailing the powers vested in the Authority, the obligations of businesses operating in the Free Trade Zone, and the internal anti-money laundering mechanisms, including all reporting and record keeping requirements, which must be maintained by these businesses.

Devise and implement all necessary measures to establish and promote coordination between the administrative and all other authorities involved in the prevention, investigation, and prosecution of money laundering activities.

Take affirmative measures to ensure uniformity in data collection practices affecting international commerce and enact measures to ensure that the data collected related to international commerce is available to other governments in accordance with applicable law.

2. Multilateral Recommendations on Black Market Peso Exchange

The Black Market Peso Exchange System Multilateral Experts Working Group²⁰ issued a statement signed on March 14, 2002, describing the methodology, conclusions and made recommendations, which can be deemed as 'Best practices'.

Conclusions

The Experts Working Group concluded that:

- TBML occurring in the region, which facilitates narcotics trafficking, terrorism and other crimes, poses a serious threat to the financial systems, and economic stability of the region.

²⁰

The BMPE MEWG consisted of the United States, Panama, Venezuela, Colombia and Aruba.

- More financial and personnel resources should be assigned to the development of a concerted and coordinated attack on TBML.
- Non-existent or incompatible trade data reporting systems make the effective tracking and monitoring of imports, exports and transhipments difficult.
- The absence of adequate registration and regulation of merchants engaged in international commerce and the lack of screening procedures for those merchants operating from a special customs and/or tax areas, such as FTZs, can contribute to the proliferation of TBML.
- The scope and magnitude of TBML could be reduced by the development and implementation of education and outreach programs.

Recommendations²¹

Short term

Conduct Public Outreach Programs for manufacturers, other persons engaged in international commerce, as well as Free Trade Zone Operators and merchants to:

- Educate them on the methods used to conduct trade-based money laundering.
- Provide them on a continuing basis with information regarding trends and patterns of trade-based money laundering and related suspicious or unusual transactions.
- Engage them in government-private enterprise coalition to combat trade-based money laundering.
- Encourage them to develop and implement their anti-money laundering programs and procedures effectively, including enhanced customer identification systems.
- Engage them in the development of a ‘Code of Ethics’ for free trade Zones and related areas aimed at preventing money laundering and other illegal activities.
- Educate them on legal requirements for the conduct of legitimate international commerce.
- Inform them through government publications in printed media as well as on internet explaining the risks of involvement in a money laundering operation and providing relevant laws, procedures, controls and legal practices, as well as ‘best practice’ guidelines for cross-border transactions. Such information should emphasize the requirements related to payment of applicable duties and taxes, including import and export licenses, where applicable, as well as outline all authorized payment procedures.
- Inform them, in particular, through these same publications and the appropriate websites, about legally prescribed payment procedures.

²¹ Edited from the original version, some BMPE recommendations are now covered by FATF recommendations.

Adequately screen, register and regulate merchants engaged in international trade, including Free trade Zone Operators, in order to ensure that they do not contribute to the proliferation of TBML.

Improve communication, coordination and cooperation among the various law enforcement, regulatory and supervisory agencies to include customs, tax and bank regulatory agencies.

Publicize the administrative and criminal penalties applicable to pertinent violations.

Long Term

Improve the collection, quality and international exchange of trade data for the purpose of developing a regional Numerically Integrated Profiling System (NIPS) to help promote legitimate trade by developing a more accurate picture of trade flows and focus law enforcement and regulatory resources to better identify and combat criminal activity.

Conduct economic, social, political and/or legal studies of the problem of TBML, focusing on issues such as the international exchange of information, the control of borders, the regulation of persons engaged in international commerce, the regulation of FTZs and other zones of international commerce, and, based on the results of such studies, propose solutions to address major problems.

Develop and implement the money laundering prevention guidelines for the CFATF Member Governments, Merchants, and FTZ Authorities as a general framework for effectively detecting, preventing, investigating and prosecuting TBML cases.

Consider bilateral or multilateral agreements or arrangements to fill existing gaps with regard to the exchange of evidence and information and facilitate the investigation and prosecution of those responsible for perpetrating the crime of money laundering.

Provide adequate funds, training, personnel, and systems, necessary for the effective detection, prevention, and prosecution of ML cases. Identify experts in each jurisdiction for the investigation and prosecution of TBML cases and focus the training to be offered nationally and internationally accordingly.

Make efforts to allocate a certain amount of each government national budget to ML prevention projects and consider offering international AML assistance to jurisdictions that require it.

Continue efforts to inform banking and non-banking financial institutions and merchants of activities, trends, methods in ML and suspicious transactions, and resources permitting, offer necessary training.

Establish, where necessary, trade data reporting systems to make possible the effective tracking and monitoring of imports, exports, and transhipments.

Encourage the establishment of a regional program for the exchange of information on shipping departures. This information system should operate online and in real time and include information on the shipper, type of cargo, destination and means of transport.

Encourage the development and implementation of an electronic customs filing and reporting system with universally compatible data fields that can be used to track the flow of goods being imported, imported, or transhipped from, to, or through each of the jurisdictions FTZs.

License, regulate and monitor entities and individuals acting as customs brokers, and persons operating bonded warehouses to promote compliance with applicable rules and regulations. Non-compliance should

be sanctioned and, in appropriate cases, such sanctions should be on the public record and/or lead to the revocation of the license.

Chart all FTZs and special customs zones in their jurisdictions and make this information publicly available.

Evaluate their jurisdictions AML legislative framework and their effectiveness in combating TBML.

Develop and implement a system to identify, and make available to all FTZ authorities, the names of FTZ merchants and users whose operational permits have been terminated as a result of ML activity.

Seek international cooperation to strengthen border security and checks to prevent TBML.

3. FATF Guidance on TBML

The Financial Action Task Force published a typologies report on TBML in June 2006. This report defined the term trade based money laundering and identified a number of case studies to illustrate the money laundering vulnerability. In 2008, the FATF published a Best Practices Paper²² which is based on six principles relating to TBML which are:

- a) In order to raise awareness and build expertise to combat TBML, countries should agree to incorporate TBML into existing training programs on AML/CFT. Such programs should include training to relevant law enforcement agencies concerning existence and relevance of financial and trade data to crime targeting.
- b) Countries should agree to make case studies and red flag indicators identified in the typologies report available to competent authorities and financial institutions.
- c) In order to ensure that the expertise of competent authorities includes a focus on combating TBML, jurisdictions should develop a domestic mechanism to link the work of authorities responsible for collecting, analysing and storing trade data with authorities responsible for investigating money laundering and terrorism financing.
- d) The collection and exchange of trade data shall only be conducted in an authorised manner and consistent with jurisdiction's domestic privacy and data protection laws.
- e) In order to facilitate international cooperation in combating TBML, countries should establish clear and effective gateways, subject to appropriate controls and safeguards, to facilitate the prompt and effective exchange of trade data and other relevant information among authorized counterparts.
- f) The above measures should be implemented with a view to ensuring that legitimate trading activities are not unreasonably hindered or obstructed.

4. Aruba's Experience

In the mid 1990's Aruba's free trade zone was heading towards being more a liability to economic development than a benefit. There was a multitude of international bad press, with allegations ranging from

²²

FATF (2008).

mafia presence and money laundering to smuggling. In some countries they were put on a black list. Several businessmen with businesses in the free trade zone were extradited to the US to face money laundering charges. This all took place before there was a formal definition for trade based money laundering.

During this same period, the extreme dependence on tourism as the single most important economic pillar led the Aruban Government to decide to diversify the economy, and the free trade zone offered potential. However, for this to be feasible, the free trade zone needed to improve its image. The threat of the bad press to tourism was even such that it was either Clean Up or Close Down.

In response to the situation, the Governments of Aruba and the Netherlands decided to research the vulnerabilities of certain aspects of the economy, of which the free trade zone was one, and make recommendations to improve their functioning and ensure integrity.

Free trade zone businesses are per definition mobile, they are not dependent on a local market and look for the best location based on different criteria, such as tax incentives, proximity to international customers, security, quality of banking and business support services, availability of labour, etc. Aruba has introduced integrity into its marketing approach, and the experience shows that integrity in itself is a valuable magnet for legitimate businesses.

To protect FTZs from being used for illegal activities, such as money laundering, underground banking and smuggling, the guiding principle in this journey has been *prevention*: how to raise the threshold, make it more difficult to launder illegal proceeds, and protect the integrity of the trade system. The development of a program based on promoting integrity, prevention, transparency and risk assessment is a best practice. As experience has taught, law enforcement and prosecution are not the ideal first line of defence.

The purpose was to identify a general framework within which to solve the problems and address the vulnerabilities that were identified. The main issues were adequate control, transparency and a risk-based approach.

Law and management

Two general changes were made to solve the problems. First, to further implement the lessons learned, new legislation was adopted, updating and strengthening the rules and regulations. Secondly, management of operations and development of the free trade zone was privatized, by means of granting an operating concession to Free Zone Aruba (FZA) NV, a limited liability company 100% owned by the government. FZA has exclusive rights to manage all free trade zones on Aruba.

A crucial element in the journey was the fact that all existing free trade zone companies wishing to continue operating from the free trade zone were re-admitted under the new rules and regulations. The new rules and regulations immediately proved their preventive effect; some companies chose not to even try to be re-admitted.

Admissions

Before a company can be admitted to the free trade zone, FZA must conduct its own due diligence and get to know the client. The due diligence is mainly done through a pre-admission screening consisting of background checks, a business plan and a source of funds declaration.

The zone authority requires transparency of the company structure: who is/are the ultimate beneficiaries? The background checks are done on all shareholders, directors and persons with a relevant power-of-attorney. Furthermore, the potential clients must submit a business plan detailing the intended type of

business: what type of goods, services; between which countries; information on clients. It helps us define a client profile needed for the risk-based approach. Also, the client must sign a statement declaring the source of funds which will be used to start up operations and that fact that these funds do not originate from criminal activity.

If and when the due diligence is completed, the client can be admitted to the free trade zone. The admissions documents consist of an operating license granted by the operator; among other things it describes the approved business activities. Also, a contract is signed between the operator and the free trade zone company, which can be adapted to suit different kinds of businesses, as the situation demands.

The admissions contract includes an Operations Manual, containing detailed descriptions for required transparency in business operations, KYC requirements, acceptable methods of payment, bookkeeping requirements and the additional elements that must be included in the yearly audited accounts, such as the receipt of cash payments.

An important general requirement is that companies have a physical presence in the free trade zone with persons on the island with sufficient power-of-attorney. The administration must be kept on Aruba. This prevents PO Box companies and promotes control and transparency.

Control and sanctions

During the operational phase FZA has the obligation and the right to check on any aspect of the business operations. In general, requested documents must be made available within 24 hours. If the admissions requirements are not being met, depending on the severity, various sanctions can be applied. Business operations can be halted and the license can even be revoked retroactively, with hefty financial consequences regarding taxation.

It is a misconception to perceive the Free Zone Aruba (FZA) NV took over complete supervision of the free trade zone. These new requirements are in addition to any rules and regulations applied by Customs, the Tax Department, commercial banks, etc.

Admission procedure

The background checks are an effective mechanism, however the reliability and timeliness of the information varies among the countries that the clients originate from. From a business perspective clients can be admitted before completing the background check, however if the result is positive, *i.e.* there are grounds on the basis of which the company should not have been admitted, the license will be revoked retroactively.

The business plan is an excellent way to gain insight into the clients' intended activities and create a client profile on the basis of which controls can be conducted. However, many entrepreneurs don't yet have detailed information; they will start a business and see how it grows. This issue is partly solved by limiting the amount of business activities stated in the license to those actually being conducted. This assists in monitoring the business activities. If the company wishes to expand their operations at any given time, they submit a written motivated request to broaden the license, which is usually granted. In the case of expanding to 'sensitive' business, such as the trade in second-hand cars from Colombia, we can impose extra rules.

A great deal has been learned about clients by simply conducting simple internet searches. Potential clients are required to give information concerning other companies they have an interest in. These companies sometimes pop up in unexpected ways. Also, once the name of a potential client came back as a convicted money launderer. In any case, it helps to ask the right questions.

Some clients, for many different reasons, never complete the admissions procedure. It seems to work as a threshold for businesses that can't or don't want to maintain transparency into their intended business operations.

Payment methods

The transparency between goods and payments has improved substantially. There are still cases of third party payments, but the reason for this is on file. Some companies call the authorities before accepting a payment, and have joined these in the learning curve.

Cash U.S. dollars are still used as payment, although less often than before the new system, and are usually brought in by the Colombian/Venezuelan boat captain that will transport the goods out of Aruba. However, there is now a reporting requirement for cash being brought into the country, which goes to the FIU, and the client may not accept these cash payments without a copy of the reporting document (which is included in the transaction file). Cash payments above a certain limit must also be reported to Free Zone Aruba (FZA) NV.

In many cases the clients of free trade zone companies have a standing current account. If these accounts are not balanced on a regular basis, which constitutes a 'red' flag, there is no insight into the payment of specific invoices and underground banking may be occurring.

The reporting procedures and internal procedures used by banks are very important to complement and complete the system. It is imperative that they have a deeper understanding of their clients' business, in this case international trade, to sufficiently protect themselves.

Shift in trade

In some cases there has been a shift in trade from the free trade zone to the 'unregulated' interior. It could be a flight from oversight, or it could be a financial decision because the goods themselves aren't subject to import duties (the free trade zone then becomes more expensive alternative to operating from the local market).

We have also seen a substantial shift of trade from Aruba to other countries.

Location challenges

Free trade zone clients are required to gather and confirm certain types of information from their clients, such as company registration and personal ID's, as part of the KYC procedure. Historically, Aruba has always done a great deal of business with Colombia and Venezuela, due to the vicinity. In some cases, clients from the aforementioned countries are not willing to give this information, we assume for tax purposes.

Goods leaving Aruba destined for these two countries are often transported by very small cargo boats, owned and operated by the captain. The goods are shipped FOB. It is not known if the goods are actually transported to the places stated on the Customs documents. Aruba regularly receives visits from Colombian Customs officials trying to crack down on smuggling into Colombia, only to find out that the goods leave Aruba in a completely legal manner.

Ultimate beneficiary

Sometimes it is a challenge to gain insight into the company ownership structure. Free trade zone companies may only have registered shares. However, in one instance these shares are owned by a

company in Panama that issued bearer shares. A declaration was requested concerning the owners of these shares and this information was on file, but it's not an ideal situation. Sometimes, for example for tax purposes, the structure is quite complicated and it's not sure how far up it's needed to go. There is no international standard.

Services

Services, one of the fastest growing types of business conducted through the free trade zone, pose a different challenge, that of intangible goods. In the case of indent trade, whereby the goods are shipped straight from A to B, without reaching Aruba, Customs documentation was required from country A and B substantiating that goods were actually shipped, and fit with the payments.

Supervision and control cannot replace law enforcement, but they are an effective line of first defence. Prevention is a substantial component in combating illegal activities. It is at least heartening to see how many of the challenges were overcome simply by conducting regular checks at the various companies

With limited resources it is wise to adopt a risk-based approach, this also disrupts legitimate business the least. Every type of business poses a learning opportunity for operators, and the businesses themselves have also learned over the years. Sometimes this is not an easy, speedy or inexpensive undertaking. There are costs involved in changing systems. And change does not come as quickly as it would be.

Based on these experiences the process is to rewrite the Operations Manual. The changes do not lessen the good business practices it promotes, but change the requirements to impede normal business less. When introducing the system the bar was set at the highest level, and can now be lower where possible.

Prosecution of suspected money laundering cases through the free trade zone has been difficult. The current legislation is being amended to solve certain problems. Often, the public prosecutor for various reasons focuses on other crimes, such as tax evasion.

Keys to success

On an international level combating TBML is still in the infant stage. We are in the process of gaining insight and developing systems. The specific vulnerabilities of FTZs create a challenge. On a local level the situation is of course no better. This situation is compounded by a lack of local expertise to conduct financial investigations.

The introduction of new reporting requirements and adding new groups that are required to report, the general lack of budgets and sufficient personnel have overloaded the AML system. Introducing international trade into the system will only make it worse.

Even when there is a suspicion of illegal activities there is often the problem exchanging information. There are confidentiality requirements, unclear or insufficient mandates and a lack of analytical tools to facilitate any research.

There are no specific reporting requirements in place for international trade, and developing these reporting standards is not easy. In the financial sector there are more clear-cut situations and objective indicators. In the case of international trade it can be the type of goods, the payment methods, the country of origin or destination, etc. Even the time of year a transaction takes place could trigger a report.

All these issues are not unique to Aruba and only serve to underline the need to develop international systems and standards.

An effective system will have to deal with real vulnerabilities. To identify these more research is needed. After identifying concrete measures that need to be taken, a system needs to be set up whereby institutions have sufficient knowledge and the tools to work together.

Education and training is critical, and must involve all concerned with international trade and the vulnerabilities, from the private sector all the way through the judicial system. Each institution has a unique perspective and generates information.

Besides the national first level of defence, international cooperation needs to be improved. The exchange of information, such as trade statistics, is crucial.

A more global and international approach, even if a country does not have a FTZ, is needed. A more balanced approach to international standards *i.e.* that prevention, good business practices, law enforcement, etc. must be included.

To develop an effective system that cannot be ignored it's crucial to focus on the bigger picture and look for the global similarities, not the regional differences.

It is important to promote integrity as a marketing tool and address the economic concerns of regulating FTZs.

Challenges

Challenge 1: Balance the development of trade and the economy with the control of FTZs and the integration of an AML/CFT regime.

It is important for Customs Administrations not only to have the right to control, but also to exercise that right by devising appropriate control regimes and carrying them out on a systematic basis, bearing in mind the original purpose of the Free Zone is to promote legitimate trade. With this original aim in mind, there is even greater justification for Customs Administrations to exercise well-constructed proportionate controls, in order to ensure that legitimate trade is facilitated and to root-out and frustrate illegal trade that is in violation of national prohibitions and restrictions, such as those breaking the IPR legislation. From anecdotal evidence provided by right holders and from the knowledge based on IPR seizures, it is known that quite often free zones have been used to hide the true origin of the goods and have also been exploited to produce and/or distribute counterfeit and pirated goods. It is therefore of great importance that Customs exercise the powers given to them in national legislation.

Historically the creation of FTZs was intended to promote the economic development for specific areas by various incentives which can be tax exemptions or trade facilities. The new concern to better control these zones in relation to the fight against fraud and money laundering could be counterproductive in terms of economic and trade impact. There is therefore a difficult choice to manage and balance the two challenges.

Challenge 2: Global approach at the international level and implementation of a strategy worldwide and by all jurisdictions.

Obstruction of opportunities for criminals to launder their money and especially drug dollars is identified as an important strategy. Countries are put under a lot of pressure to implement this strategy. Trade partners are also concerned about the international assistance and cooperation to increase the effectiveness

of the anti-money laundering initiatives. So too, the feeder countries are identified²³ as trade partners and are put under pressure to bring about changes in their trade compliance systems.

If it's not the case, the FTZ which is regulated will lose clients and volume of the business in favour of other FTZs which are not regulated because of the cost benefit analysis. The implementation and compliance with the new rules may be costly which is not an investment for the others FTZs and this situation has an impact of the competitive aspect of the issue.

Challenge 3: Integrity has a price and generates a cost which can have consequences on volume of business in zones in terms of competitiveness. Existence of double standard.

Integrity as a model can become an ‘integrity doesn’t pay’ conviction. The invested funds in the integrity policy implementation had to be taken out of other budgets: education, health care, infrastructure. These decisions were made based on the premise that integrity would pay off but have now lead to the conclusion that a double loss has been suffered.

The competitive advantage of non-compliance needs to be dealt with, a level playing field needs to be guaranteed. Examples from the process of regulating the financial sector are obvious, there was shift from regulated to the unregulated jurisdictions. From an economic perspective it can be an advantage to postpone implementing the rules and regulations for as long as possible.

5. World Customs Organization Instruments and Standards

Customs worldwide has to develop policies and procedures which must consider the needs of legitimate traders for trade facilitation while at the same ensuring that the economy and security of nations is protected. In this regard, the WCO has developed two major instruments – the International Convention for the Simplification and Harmonization of Customs Procedures (known as the Revised Kyoto Convention) and the Framework of Standards to Secure and Facilitate Global Trade (known as the SAFE Framework of Standards).

The Revised Kyoto Convention is considered the blueprint for trade facilitation. It contains legally binding standards covering the core activities of Customs. The Convention reflects the main principles of transparency and predictability in Customs matters: standardization and simplification of documentation; simplified procedures for authorized persons; maximum use of ICT and international standards, minimum necessary controls to ensure compliance with customs laws; use of risk management; use of audit based controls, co-ordinated interventions with customs and others border agencies; use of pre-arrival information which in aim leads to pre-arrival customs processing and quick release times, and partnership with the trade. This convention contains standards and recommended practices that are particularly applicable to the operation of free zones.

The SAFE Framework of standards will revolutionize the operation of customs to meet the challenges of the 21th Century and vastly improve its ability to secure and facilitate global trade. It was developed by the WCO and its MS in close consultation with international organizations and the world’s business community. Implementation of the Framework will contribute positively to economic and social development, act as a deterrent to international terrorism, secure revenue collections and promote trade facilitation world-wide. The SAFE framework aims to establish standards that provide supply chain security and facilitation to goods being traded internationally, enable integrated supply chain management

²³ In this model I will just illustrate the effects and reactions of the feeder countries. In practice an entire chain of links are influenced, all the way ‘up the chain’ to the suppliers and beyond.

for all modes of transport, enhance the capabilities of customs administrations, strengthen networking arrangements between customs and business communities; and champion the seamless movement of goods through secure international trade supply chain. It also provides for advance provision of data, the use of risk management and the use of non-intrusive inspection technologies.

Arising from the joint forum World Free Zone Convention (WFZC) believes that its network will be looking at ways to strengthen their cooperation with customs and to eradicate customs-fraud; at the potential for member state accession to the Revised Kyoto Convention (1); and at the possibility of becoming Authorized Economic Operators (AEO) is envisaged in the WCO Safe Framework of Standards (2).

The WCO has developed a number of standards, procedures and tools to address security concerns related to the international supply chain.

]Specific Annex D2 of the Revised Kyoto Convention stipulates Customs procedures and practices for the establishment and control of free zones in a simplified and harmonized manner. At the same time, it provides for the needs for controls: "*Customs shall have the right to carry out checks at any time of the goods stored in a free zone.*" (Standard 4)

The number of Contracting Parties accepting Specific Annex D2 is at 9 out of 64 as of 1 October 2009. The Contracting Parties, who have introduced the free zone system within their territories and have not accepted Specific Annex D2 are encouraged to study the possibility of acceptance of this Specific Annex and/or, if not possible to accept immediately, to act upon the Standards and Recommended Practices contained in the Specific Annex from a viewpoint of maintaining appropriate levels of Customs control.

Members of non-Contracting Parties to the Revised Kyoto Convention are equally encouraged to examine the possibility of ratifying the Convention or taking appropriate Customs control measures in line with the Convention. For this purpose, the WCO Secretariat is going to commit itself to promoting wider accession and application of the Revised Kyoto Convention by Member administrations

In cases where is not the Customs but other agencies in charge of controls over free zones goods and operations, Member administrations are encouraged to contact them to explain the need to take control on behalf of Customs. Customs in such countries should have the capacity to monitor the quality of controls of such agencies.

It is well recognized that tax and duty evasion is not only the Customs offence for which free zones are exploited. In fact, the Customs Enforcement Network / CEN database shows a number of fraud cases related to illicit trade in counterfeit goods, cigarettes and tobacco products. The WCO's annual reports on drugs, tobacco and counterfeit goods specifically highlight the problem that free zones are exploited by organized criminal syndicates by means of disguising countries of origin of consignments, thus attempting to avoid being targeted for Customs physical checks.

Given the fact that significant volumes of counterfeit and pirated goods have been stored, re-labelled, repacked or even manufactured within the free zones, the WCO Secretariat prepared Guidelines on controlling free zones. Member administrations are urged to compare current enforcement practices and the Guideline best practices, and take appropriate action within their competencies. Due attention should be paid to possible discrepancies in the definition and legal establishment of free zones from that provided in Specific Annex D2 of the Revised Kyoto Convention.

Absence of controls over the goods and economic operations carried out in free zones poses potential risks in terms of security of the international supply chain. In the current social and economic environment,

where security issues are of paramount importance, such risks should not be left unaddressed. Since the free zone system has been integrated as an integral part of the trade policy of many WCO Member countries/territories, an appropriate risk assessment should be urgently. It is believed that risk assessment would lead to the improvement of compliance and reduce the potential risk of being exploited for commercial fraud purposes.

At the same time, Members should pay due attention to the "World Customs Organization Message Concerning the World Free Zone Convention (WFZC) Forum". A major outcome of the forum was the WFZC's agreement to continue to cooperate with Customs and the WCO in the fight against terrorism and Customs fraud in all its forms. Accordingly, Member administrations are highly encouraged to initiate partnership dialogues with those participating free zone management authorities at the national level in the interest of ensuring economic protection and security.

In order to accurately target high-risk consignments for control, it is essential to share information and intelligence on commercial fraud among Members for the purpose of analyzing the trends and nature of the commercial fraud cases involving exploitation of specific free zones. Information exchange with the Member administrations where the exploited free zones are located is critical. In this context, Member administrations are encouraged to feed seizure data into the WCO CEN database in a timely manner and appropriately indicate the exploitation of free zones, if this is the case.

At the same time, WCO Members are asked to provide narrative information on significant cases to the Regional Intelligence Liaison Offices (RILO) and the Secretariat for sharing relevant information on the cases and investigative leads which may be included in the Commercial Fraud Typology Summary.

Application of risk indicators for identifying anomalies in filed import declarations is highly encouraged.

Introduction of free zone systems are decided from a country's economic/industrial policy viewpoint. Aggressive Customs intervention may affect the current national policies on free zones and may bring about controversial political and/or legal debates as to whether the existing free zones have extraterritorialy concerning Customs control. Having said that, Customs may not be able to exercise sufficient control authority under the existing free zone system. Members should be aware of potential risk for exploitation from organized crime organizations as well as terrorists.

From the Customs enforcement perspective, applying essential means of control over the goods entering and/or leaving free zones is encouraged. The Secretariat considers that sharing of information among Member administrations at both bilateral and multilateral levels should be further pursued, most desirably by feeding pertinent seizure data into the CEN database. Taking into account the fact that the international Customs community is seeking the possibilities for establishing mutual authorization of economic operators, it may be worth discussing the way forward to establish a kind of joint risk management on alleged exploitation of free zones for circumvention of revenue and/or security requirements.

With this background in mind, a Customs Expert Group drafted practical guidelines, based on the experiences of some Customs administrations, in order to assist those Administrations wishing to improve, or review the controls that they deploy in Free Zones. The guide may also be of use to rights holders, in helping them to understand the background to such zones and the rationale being employed in their control.

Principles and recommendations

The International Convention on the simplification and harmonization of Customs Procedures (hereafter: the Revised Kyoto Convention) contains provisions on free zones in Specific Annex D2²⁴.

²⁴

World Customs Organisation (1974, revised 1999).



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FATF • GAFI

Financial Action Task Force
Groupe d'action financière

TRADE BASED MONEY LAUNDERING

23 JUNE 2006

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Executive Summary

There are three main methods by which criminal organisations and terrorist financiers move money for the purpose of disguising its origins and integrating it into the formal economy. The first is through the use of the financial system; the second involves the physical movement of money (e.g. through the use of cash couriers); and the third is through the physical movement of goods through the trade system. In recent years, the Financial Action Task Force has focused considerable attention on the first two of these methods. By comparison, the scope for abuse of the international trade system has received relatively little attention.

The international trade system is clearly subject to a wide range of risks and vulnerabilities that can be exploited by criminal organisations and terrorist financiers. In part, these arise from the enormous volume of trade flows, which obscures individual transactions; the complexities associated with the use of multiple foreign exchange transactions and diverse trade financing arrangements; the commingling of legitimate and illicit funds; and the limited resources that most customs agencies have available to detect suspicious trade transactions.

For the purpose of this study, *trade-based money laundering is defined as the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimise their illicit origins*. In practice, this can be achieved through the misrepresentation of the price, quantity or quality of imports or exports. Moreover, trade-based money laundering techniques vary in complexity and are frequently used in combination with other money laundering techniques to further obscure the money trail.

This study provides a number of case studies that illustrate how the international trade system has been exploited by criminal organisations. It also has made use of a detailed questionnaire to gather information on the current practices of more than thirty countries. This information focuses on the ability of various government agencies to identify suspicious activities related to trade transactions, to share this information with domestic and foreign partner agencies, and to act on this information.

The study concludes that trade-based money laundering represents an important channel of criminal activity and, given the growth of world trade, an increasingly important money laundering and terrorist financing vulnerability. Moreover, as the standards applied to other money laundering techniques become increasingly effective, the use of trade-based money laundering can be expected to become increasingly attractive.

Looking ahead there are a number of practical steps that can be taken to improve the capacity of national authorities to address the threat of trade-based money laundering. Among these are the need for a stronger focus on training programs to better identify trade-based money laundering techniques, the need for more effective information sharing among competent authorities at the national level, and greater recourse to memoranda of understanding and mutual assistance agreements to strengthen international cooperation.

Trade-Based Money Laundering

1. Introduction

In general, there are three main methods by which criminal organisations and terrorist financiers move money for the purpose of disguising its origins and integrating it back into the formal economy.

- The first involves the movement of value through the financial system using methods such as cheques and wire transfers;
- The second involves the physical movement of banknotes using methods such as cash couriers and bulk cash smuggling; and
- The third involves the movement of value using methods such as the false documentation and declaration of traded goods and services.

Each of these methods involves the movement of enormous volumes of funds and can operate at a domestic or international level. *The primary focus of this study is trade-based money laundering involving the international exchange of goods.¹*

Over the past few years, the Financial Action Task Force (FATF) has focussed considerable attention on the first two of these methods. In 2003, the FATF significantly toughened the standards that apply to the financial system and various non-financial intermediaries. Two years later, it extended these standards to cover the activities of cash couriers. To date, however, limited attention has been focussed on trade-related activities.

Not surprisingly, research has shown that when governments take action against certain methods of money laundering or terrorist financing, criminal activities tend to migrate to other methods. In part, this reflects the fact that more aggressive policy actions and enforcement measures increase the risk of detection and therefore raise the economic cost of using these methods.

This suggests that the FATF's recent actions to revise the 40 Recommendations on money laundering and extend the 8 Special Recommendations on terrorist financing to cover cash couriers, as well as the ongoing efforts of countries to implement these stricter standards, may have the unintended effect of increasing the attractiveness of the international trade system for money laundering and terrorist financing activities.²

This report is the product of research carried out by a project team operating under the umbrella of the FATF typologies initiative. The FATF project team was led by Canada with the participation of Aruba, Australia, Belgium, Brazil, China, India, Mexico, the Netherlands, the Netherlands Antilles, South Africa, South Korea, Spain, the United Kingdom, the United States, the Asia Development Bank, the Asia-Pacific Group on Money Laundering, the Eastern and Southern Africa Anti-Money Laundering Group, the Egmont Group (represented by the Ukraine), the Gulf Cooperation Council, the World Bank, and the World Customs Organisation.

¹ The specific risks associated with trade-based money laundering involving the international trade of services warrant further study.

² FATF Special Recommendation IX pertains to cash couriers.

2. The International Trade System

The international trade system is subject to a wide range of risks and vulnerabilities, which provide criminal organisations with the opportunity to launder the proceeds of crime and provide funding to terrorist organisations, with a relatively low risk of detection. The relative attractiveness of the international trade system is associated with:

- The enormous volume of trade flows, which obscures individual transactions and provides abundant opportunity for criminal organisations to transfer value across borders;
- The complexity associated with (often multiple) foreign exchange transactions and recourse to diverse financing arrangements;
- The additional complexity that can arise from the practice of commingling illicit funds with the cash flows of legitimate businesses;
- The limited recourse to verification procedures or programs to exchange customs data between countries; and
- The limited resources that most customs agencies have available to detect illegal trade transactions.

On this last point, research suggests that most customs agencies inspect less than 5 percent of all cargo shipments entering or leaving their jurisdictions. In addition, most custom agencies are able to direct relatively limited analytical resources to improved targeting and identification of suspicious trade transactions.

In recent decades, international trade has grown significantly: global merchandise trade now exceeds US\$9 trillion a year and global trade in services accounts for a further US\$2 trillion³. Much of this trade is associated with the financial system, as a significant amount of goods and services are financed by banks and other financial institutions.

In industrial countries the growth of trade has significantly exceeded the growth of gross domestic product, while in developing countries it has increased even faster. In addition, virtually all economies have become more open to trade. This has placed increasing pressure on the limited resources that most countries, especially developing countries, have available to scrutinise these activities.

3. Abuse of the International Trade System

Researchers have documented how the international trade system can be used to move money and goods with limited scrutiny by government authorities. In addition to money laundering, a considerable amount of academic attention has focused on the related activities of tax avoidance and evasion, and capital flight. A brief review of the recent literature in these areas is provided below.

Tax Avoidance and Evasion

A number of authors, including Li and Balachandran (1996), Fisman and Wei (2001), Swenson (2001) and Tomohara (2004), have described the impact that differing tax rates have on the incentives of corporations to shift taxable income from jurisdictions with relatively high tax rates to jurisdictions with relatively low tax rates in order to minimise income tax payments.

For example, this could arise in the context of a domestic parent company headquartered in a low-tax jurisdiction, which has a foreign affiliate operating in a high-tax jurisdiction. In such a situation, a common technique would be the over- or under-invoicing of imports and exports. For example, a foreign parent could use internal "transfer prices" to overstate the value of the goods and services that it provides to its foreign affiliate in order to shift

³ See *International Trade Statistics 2005*, World Trade Organisation.

taxable income from the operations of the affiliate in a high-tax jurisdiction to its operations in a low-tax jurisdiction.⁴

Similarly, the foreign affiliate might underestimate the value of the goods and services that it provides the domestic parent in order to shift taxable income from its high-tax jurisdiction to the low-tax jurisdiction of its parent. Both of these strategies would shift the company's profits to the low-tax jurisdiction and in doing so, reduce its worldwide tax payments. Imports can also be under-invoiced to reduce the payment of import duties and exports can be over-invoiced to obtain larger export subsidies. For example, studies by Vincent (2004) and Goetzel (2005) have documented the use of under-invoicing to reduce import duties in the case of forest products.

Capital Flight

A number of authors, including Cuddington (1986), Gulati (1987), Lessard and Williamson (1984), Kahn (1991), Anthony and Hallet (1992), Wood and Moll (1994), Fatehi (1994), Baker (2005) and de Boyrie, Pak and Zdanowicz (2005), have shown that companies and individuals also shift money from one country to another to diversify risk and protect their wealth against the impact of financial or political crises. Several of these studies also show that a common technique used to circumvent currency restrictions is to over-invoice imports or under-invoice exports.

For example, the International Monetary Fund (IMF) (1991), Kahn (1991), Wood and Moll (1994) and Fatehi (1994) examined the impact of controls imposed by South Africa in the 1970s and 1980s. They found that the primary method used to evade these controls was the falsification of import and export invoices. By comparing discrepancies between the value of exports reported by South Africa and the value of imports reported by key trading partners, the Kahn study concluded that at least \$20 billion had been transferred out of South Africa through the use of the international trade system. Other studies, including Smit and Mocke (1991) and Rustomjee (1991), suggested outflows ranging from \$12 billion to more than \$50 billion.

Trade-Based Money Laundering

Unlike tax avoidance and capital flight, which usually involve the transfer of legitimately earned funds across borders, capital movements relating to money laundering – or trade-based money laundering – involve the proceeds of crime, which are more difficult to track.

Trade-based money laundering has received considerably less attention in academic circles than the other means of transferring value. The literature has primarily focussed on alternative remittance systems and black market peso exchange transactions. However, a number of authors and institutions, including Baker (2005), de Boyrie, Pak and Zdanowicz (2005), the Department of Homeland Security, US Immigration and Customs Enforcement (2005), have recently examined a range of other methods used to launder money through the international trade system as well as the scope that jurisdictions have to identify and limit these activities.

A number of these studies have also analyzed techniques to establish whether reported import and export prices reflect fair market values. One of the methods currently being explored involves the use of statistical techniques to detect discrepancies in the information provided on shipping documents to better identify suspicious trading activity.

4. Basic Trade-Based Money Laundering Techniques

For the purpose of this study, *trade-based money laundering is defined as the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimise their illicit origin*. In practice, this can be achieved through the misrepresentation of the price, quantity or quality of imports or exports.

⁴ In the case of transfer pricing, the reference to over- and under-invoicing relates to the legitimate allocation of income between related parties, rather than customs fraud.

Trade Based Money Laundering

In many cases, this can also involve abuse of the financial system through fraudulent transactions involving a range of money transmission instruments, such as wire transfers. The basic techniques of trade-based money laundering include:

- over- and under-invoicing of goods and services;
- multiple invoicing of goods and services;
- over- and under-shipments of goods and services; and
- falsely described goods and services.

All of these techniques are not necessarily in use in every country.

Over- and Under-Invoicing of Goods and Services

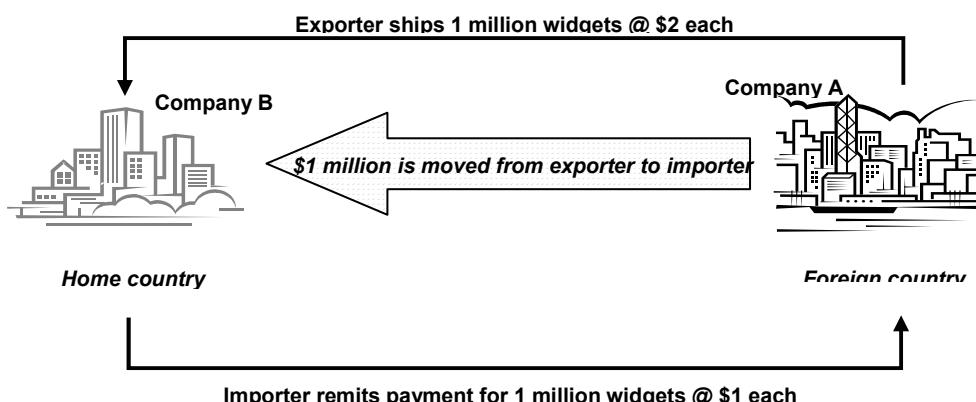
Money laundering through the over- and under-invoicing of goods and services, which is one of the oldest methods of fraudulently transferring value across borders, remains a common practice today. The key element of this technique is the misrepresentation of the price of the good or service in order to transfer additional value between the importer and exporter.

By invoicing the good or service at a price below the “fair market” price, the exporter is able to transfer value to the importer, as the payment for the good or service will be lower than the value that the importer receives when it is sold on the open market.

Alternatively, by invoicing the good or service at a price above the fair market price, the exporter is able to receive value from the importer, as the payment for the good or service is higher than the value that the importer will receive when it is sold on the open market.

Over- and Under-Invoicing of Goods – An Example

Company A (a foreign exporter) ships 1 million widgets worth \$2 each, but invoices Company B (a colluding domestic importer) for 1 million widgets at a price of only \$1 each. Company B pays Company A for the goods by sending a wire transfer for \$1 million. Company B then sells the widgets on the open market for \$2 million and deposits the extra \$1 million (the difference between the invoiced price and the “fair market” value) into a bank account to be disbursed according to Company A’s instructions.



Alternatively, Company C (a domestic exporter) ships 1 million widgets worth \$2 each, but invoices Company D (a colluding foreign importer) for 1 million widgets at a price of \$3 each. Company D pays Company C for the goods by sending a wire transfer for \$3 million. Company C then pays \$2 million to its suppliers and deposits the remaining \$1 million (the difference between the invoiced price and the “fair market” price) into a bank account to be disbursed according to Company D’s instructions.

Several points are worth noting. First, neither of the above transactions would be undertaken unless the exporter and importer had agreed to collude. For example, if Company A were to ship widgets worth \$2 each, but invoice them for \$1 each, it would lose \$1 million a shipment. Such a situation would not make sense unless the exporter and importer were colluding in a fraudulent transaction.

Second, there is no reason that Company A and Company B could not be controlled by the same organisation. In turn, there is nothing that precludes a parent company from setting up a foreign affiliate in a jurisdiction with less rigorous money laundering controls and selling widgets to the affiliate at a “fair market” price. In such a situation, the parent company could send its foreign affiliate a legitimate commercial invoice (e.g. an invoice of \$2 million for 1 million widgets) and the affiliate could then resell (and “re-invoice”) these goods at a significantly higher or lower price to a final purchaser. In this way, the company could shift the location of its over- or under-invoicing to a foreign jurisdiction where such trading discrepancies might have less risk of being detected.

Third, the over- and under-invoicing of exports and imports can have significant tax implications. An exporter who over-invoices the value of the goods that he ships may be able to significantly increase the value of the export tax credit (or valued-added tax (VAT) rebate) that he receives. Similarly, an importer who is under-invoiced for the value of the goods that he receives may be able to significantly reduce the value of the import duties (or customs taxes) that he pays. Both of these cases illustrate the link between trade-based money laundering and abuse of the tax system.⁵

Research suggests that under-invoicing exports is one of the most common trade-based money laundering techniques used to move money. This reflects the fact that the primary focus of most customs agencies is to stop the importation of contraband and ensure that appropriate import duties are collected. Thus, customs agencies generally monitor exports less rigorously than imports.⁶

It is also worth noting that the more complex the good being traded, the greater the difficulty that customs agencies will have in identifying over- and under-invoicing and correctly assessing duties or taxes. In part, this is because many customs agencies do not have access to data and resources to establish the “fair market” price of many goods. In addition, most customs agencies do not share trade data with other countries and therefore see only one side of the transaction. As such, their ability to identify incorrectly priced goods is often limited to those that are widely traded (and whose prices are widely quoted) in international markets.⁷

Multiple Invoicing of Goods and Services

Another technique used to launder funds involves issuing more than one invoice for the same international trade transaction. By invoicing the same good or service more than once, a money launderer or terrorist financier is able to justify multiple payments for the same shipment of goods or delivery of services. Employing a number of different financial institutions to make these additional payments can further increase the level of complexity surrounding such transactions.

In addition, even if a case of multiple payments relating to the same shipment of goods or delivery of services is detected, there are a number of legitimate explanations for such situations including the amendment of payment terms, corrections to previous payment instructions or the payment of late fees. Unlike over- and under-invoicing, it should be noted that there is no need for the exporter or importer to misrepresent the price of the good or service on the commercial invoice.⁸

⁵ For the purposes of this paper, cases of over- or under-invoicing primarily designed to gain a tax advantage are considered customs fraud rather than trade-based money laundering.

⁶ For the same reasons, non-dutiable goods may also be subject to less rigorous scrutiny.

⁷ High-value goods, such as works of art, which have limited markets and highly “speculative” values present significant valuation difficulties.

⁸ If prices are correctly reported to customs agencies, detection of criminal activity is more difficult and may depend on intelligence-led operations.

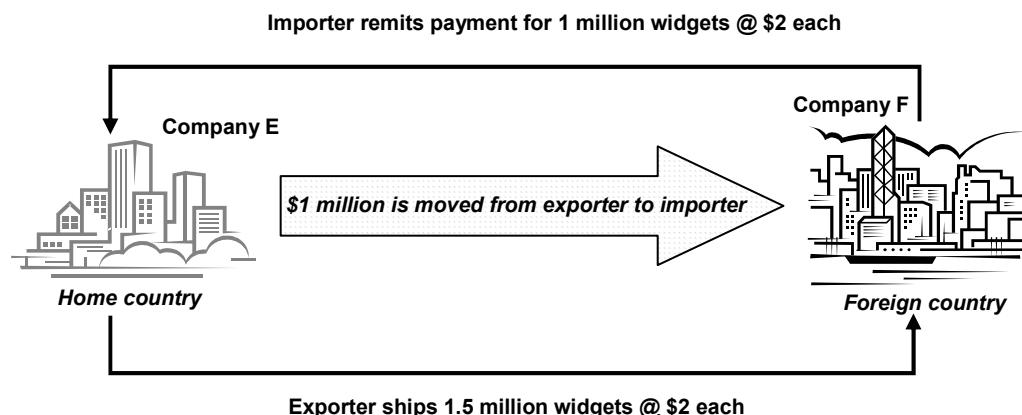
Over- and Under-Shipment of Goods and Services

In addition to manipulating export and import prices, a money launderer can overstate or underestimate the quantity of goods being shipped or services being provided. In the extreme, an exporter may not ship any goods at all, but simply collude with an importer to ensure that all shipping and customs documents associated with this so-called “phantom shipment” are routinely processed. Banks and other financial institutions may unknowingly be involved in the provision of trade financing for these phantom shipments.

Falsely Described Goods and Services

Over- and Under-Shipment of Goods – An Example

Company E (a domestic exporter) sells 1 million widgets to Company F (a colluding foreign importer) at a price of \$2 each, but ships 1.5 million widgets. Company F pays Company E for the goods by sending a wire transfer for \$2 million. Company F then sells the widgets on the open market for \$3 million and deposits the extra \$1 million (the difference between the invoiced quantity and the actual quantity) into a bank account to be disbursed according to Company E’s instructions.



Alternatively, Company G (a foreign exporter) sells 1 million widgets to Company H (a colluding domestic importer) at a price of \$2 each, but only ships 500,000 widgets. Company H pays Company G for the goods by sending a wire transfer for \$2 million. Company G then pays \$1 million to its suppliers and deposits the remaining \$1 million (the difference between the invoiced quantity and the actual quantity) into a bank account to be disbursed according to Company H’s instructions.

In addition to manipulating export and import prices, a money launderer can misrepresent the quality or type of a good or service. For example, an exporter may ship a relatively inexpensive good and falsely invoice it as a more expensive item or an entirely different item. This creates a discrepancy between what appears on the shipping and customs documents and what is actually shipped. The use of false descriptions can also be used in the trade in services, such as financial advice, consulting services and market research. In practice, the fair market value of these services can present additional valuation difficulties.

Falsely Described Goods – An Example

Company I (a domestic exporter) ships 1 million gold widgets worth \$3 each to Company J (a colluding foreign importer), but invoices Company J for 1 million silver widgets worth \$2 each. Company J pays Company I for the goods by sending a wire transfer for \$2 million. Company J then sells the gold widgets on the open market for \$3 million and deposits the extra \$1 million (the difference between the invoice value and the actual value) into a bank account to be disbursed according to Company I's instructions.



Alternatively, Company K (a foreign exporter) ships 1 million bronze widgets worth \$1 each to Company L (a colluding domestic importer), but invoices Company L for 1 million silver widgets worth \$2 each. Company L pays Company K for the goods by sending a wire transfer of \$2 million. Company K then pays \$1 million to its suppliers and deposits the remaining \$1 million (the difference between the invoiced value and the actual value) into a bank account to be disbursed according to Company L's instructions.

5. Complex Trade-Based Money Laundering Techniques

In practice, strategies to launder money usually combine several different techniques. Often these involve abuse of both the financial and international trade systems. Black market peso exchange arrangements provide a useful illustration of how a number of different money laundering techniques can be combined into a single criminal operation.

Black Market Peso Exchange Arrangements

The mechanics of black market peso exchange arrangements became the subject of considerable study in the 1980s when Colombia became the dominant exporter of cocaine into the United States. These illegal drug sales generated about \$10 billion a year for the Colombian drug cartels, of which as much as \$4 billion a year was laundered through black market peso arrangements. The mechanics of a simple black market peso arrangement can be set out in the following steps.

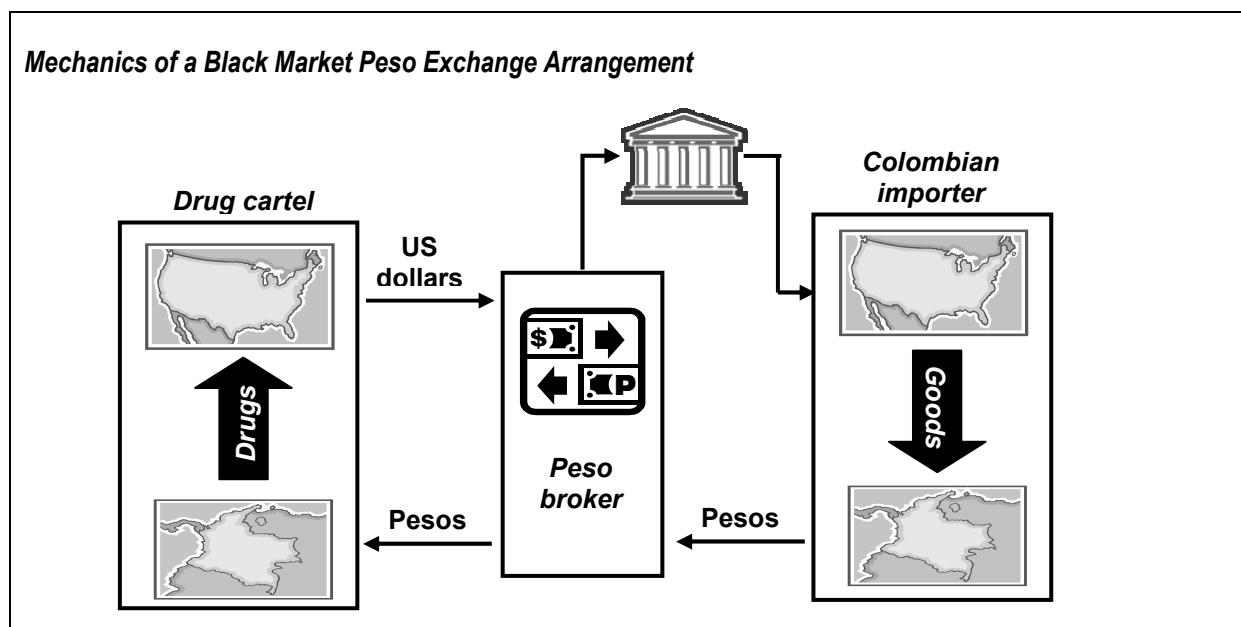
- First, the Colombian drug cartel smuggles illegal drugs into the United States and sells them for cash;
- Second, the drug cartel arranges to sell the US dollars at a discount to a peso broker for Colombian pesos;⁹
- Third, the peso broker pays the drug cartel with pesos from his bank account in Colombia (which eliminates the drug cartel from any further involvement in the arrangement);

⁹ The peso broker does not need to be located in the United States and, in fact, will usually operate out of Colombia. However, the peso broker will need to have a relationship with a correspondent in the United States to execute the transaction.

Trade Based Money Laundering

- Fourth, the peso broker structures or “smurfs” the US currency into the US banking system to avoid reporting requirements and consolidates this money in his US bank account;
- Fifth, the peso broker identifies a Colombian importer that needs US dollars to purchase goods from a US exporter¹⁰;
- Sixth, the peso broker arranges to pay the US exporter (on behalf of the Colombian importer) from his US bank account;
- Seventh, the US exporter ships the goods to Colombia¹¹; and
- Finally, the Colombian importer sells the goods (often high-value items such as personal computers, consumer electronics and household appliances) for pesos and repays the peso broker. This replenishes the peso broker’s supply of pesos.

These transactions combine a number of different illegal activities, such as drug smuggling, money laundering through the financial system and trade-based money laundering.¹² In addition, there is no reason why the drug cartel cannot act as its own peso broker or import business. In fact, many drug cartels appear to have internalised these functions.



Unlike the basic trade-based money laundering techniques discussed above, there is also no need for the importer and exporter to collude in a fraudulent transaction for the black market peso exchange arrangement to work. Instead, the prices and quantities of the goods can be correctly reported to customs agencies and value can still be transferred across borders.¹³ Although the term “black market peso exchange” refers to a money

¹⁰ The peso broker generally offers an exchange rate that is significantly better than that available through a Colombian bank.

¹¹ In practice, these goods would frequently be under-invoiced to reduce import duties or smuggled into the country to avoid import duties.

¹² Banks and other financial institutions provide a number of arrangements for the settlement of international trade transactions. (For more information, see Annex 1).

¹³ If prices and quantities are correctly reported to customs agencies, detection of the criminal activity is more difficult and may depend on intelligence-led operations. In practice, the goods associated with most black market peso exchange transactions are smuggled into the country to avoid duties and taxes.

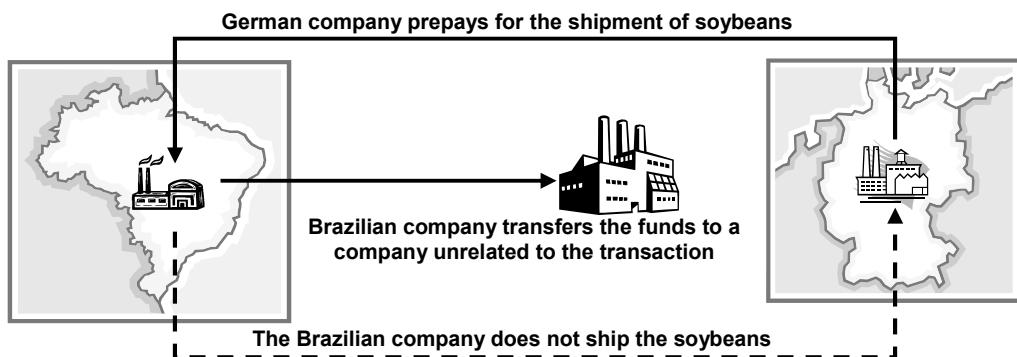
laundering technique that was originally associated with Colombian narcotics trafficking, these arrangements are widely used in many countries to repatriate the proceeds of various types of crimes.

6. Case Studies

This section provides a number of case studies that illustrate the various ways that trade-based money laundering techniques can be used separately or in combination with other money laundering techniques to obscure the origins of illegal funds and complicate efforts to trace this money.

Case Study 1

- A Brazilian company signs a contract to export soybeans to a German company.
- The German company prepays the Brazilian company for the shipment.
- The Brazilian company immediately transfers the funds to a third party that is unrelated to the transaction.
- The soybeans that were purchased by the German company are never shipped.

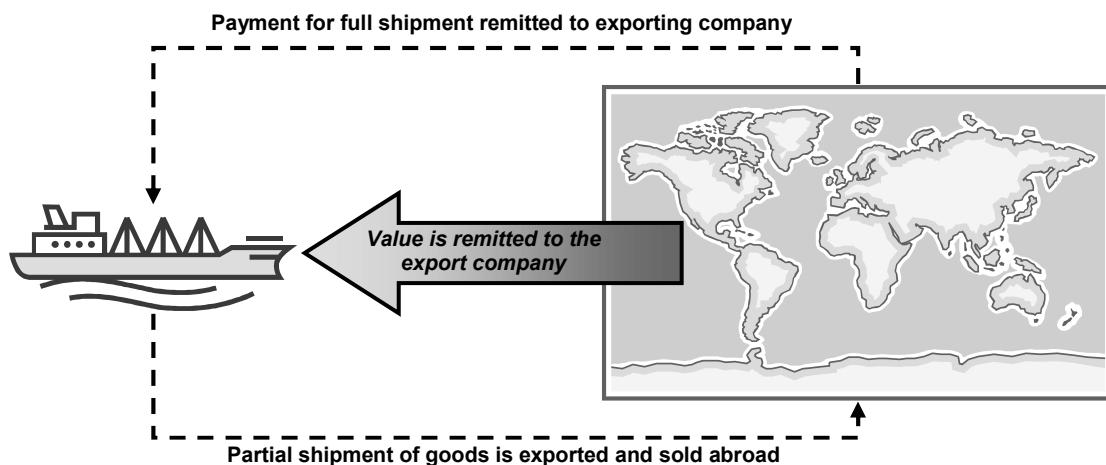


Source: Information provided by Brazil.

Commentary -- In this case, the German company transferred funds to the Brazilian company as an advance payment for a shipment of soybeans. Suspicion was raised when it was found that exports of soybeans were inconsistent with the Brazilian company's regular business activities and the size of the reported shipment was inconsistent with the scale of the company's operations.

Case Study 2

- A criminal organisation exports a relatively small shipment of scrap metal, but falsely reports the shipment as weighing several hundred tons.
- Commercial invoices, bills of lading and other shipping documents are prepared to support the fraudulent transaction.
- When the cargo is loaded on board the ship, a Canadian customs officer notices that the hull of the ship is still well above the water line. This is inconsistent with the reported weight of the shipment of scrap metal.
- The cargo is examined and the discrepancy between the reported and actual weight of the shipment is detected.
- It is assumed that the inflated value of the invoice would have been used to transfer criminal funds to Canada.

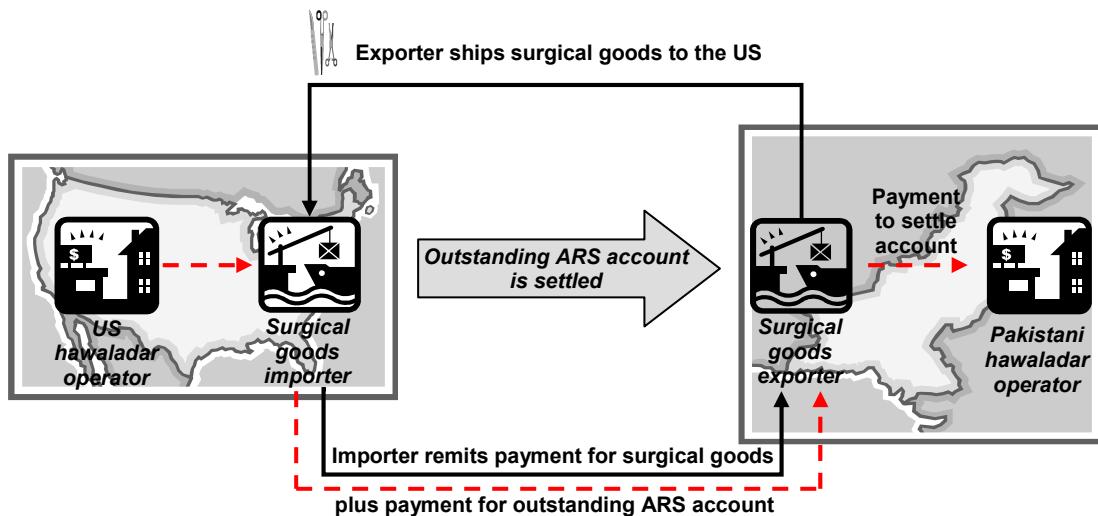


Source: Information provided by Canada.

Commentary -- In this case, the criminal organisation appears to have intended to over-invoice a colluding foreign importer by misrepresenting the quantity of goods. Using the international trade system, the criminal organisation would then have been able to transfer illegal funds back into the country using the trade transaction to justify payment through the financial system.

Case Study 3

- An alternative remittance system (ARS) operator (e.g. a “hawaladar”) in the United States wants to transfer funds to his Pakistani counterpart to settle an outstanding account.
- The US operator colludes with a Pakistani exporter, who agrees to significantly over-invoice a US importer for the purchase of surgical goods.
- The US operator transfers funds to the US importer to cover the extra cost related to the over-invoicing.
- The Pakistani exporter uses the over-invoiced amount to settle the US operator’s outstanding account with his Pakistani counterpart.
- The Pakistani exporter additionally benefits from a 20 percent VAT rebate on the higher prices of the exported goods.

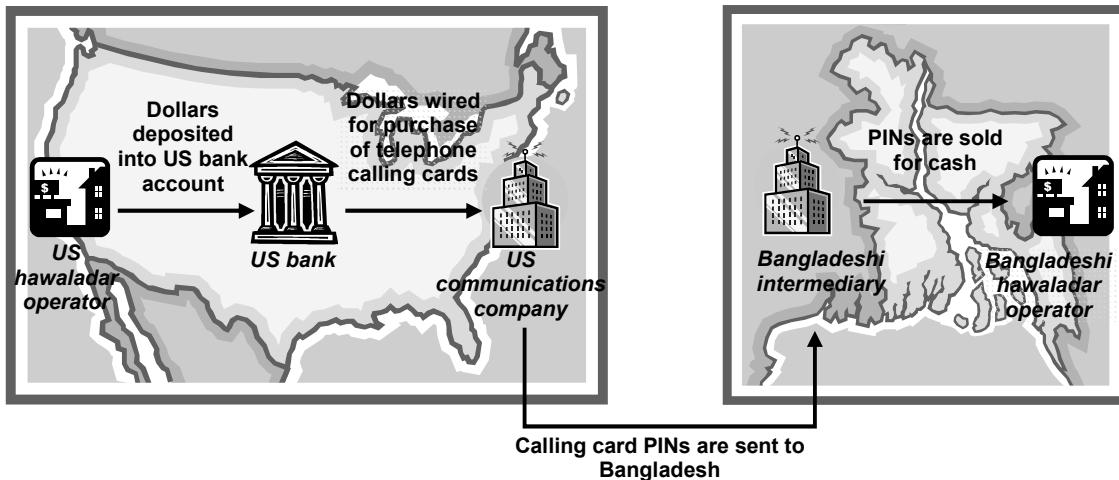


Source: Information provided by the United States.

Commentary -- In this case, rather than simply wiring the funds to his Pakistani counterpart, the US operator convinces a Pakistani exporter to over-invoice a colluding US importer. Using the international trade system, the US operator was then able to transfer the funds to settle his account using the trade transaction to justify payment through the financial system.

Case Study 4

- An alternative remittance system operator in the United States wants to transfer funds to his Bangladeshi counterpart to settle an outstanding account.
- The US operator deposits US dollars into his bank account and then wires the money to the corporate account of a large communications company to purchase telephone calling cards.
- The personal identification numbers (PINs) of these calling cards are sent to Bangladesh and sold for cash.
- The cash is given to the Bangladeshi counterpart to settle the US operator's outstanding account.

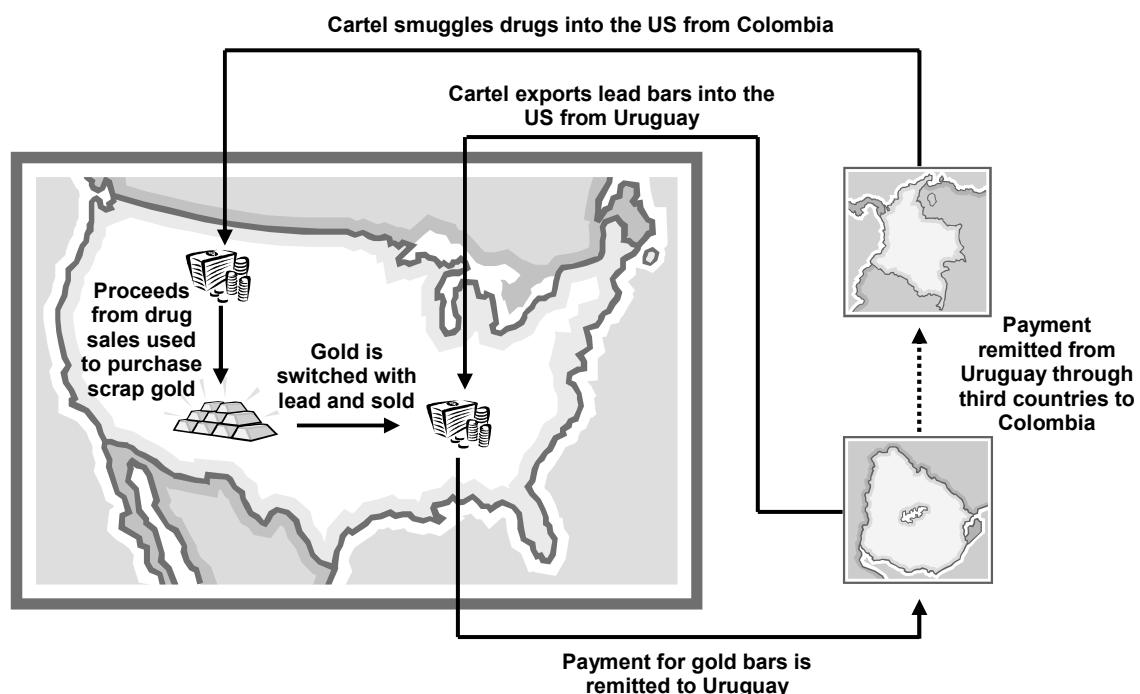


Source: FATF Money Laundering and Terrorist Financing Typologies for 2004-2005.

Commentary -- In this case, rather than simply wiring the funds to his Bangladeshi counterpart, the US operator chose to minimise the risk of detection through use of the international trade system. Interestingly, the operator's scheme does not depend on fraudulently reporting the price or quantity of the goods in order to transfer the funds required to settle the outstanding account. In addition, the calling cards are not actually exported. All that is required is the cross-border transfer of the PINs (i.e. the sale of an "intangible" good).

Case Study 5

- A Colombian cartel smuggles illegal drugs into the United States and sells them for cash.
- The cartel uses the cash to buy scrap gold in the United States, which is melted down and recast as gold bars.
- At the same time, the cartel ships lead bars from Uruguay to the United States, which are invoiced as bars of gold.
- When the shipment arrives, the lead bars are destroyed and the recast gold bars are substituted.
- With authentic documentation, the gold bars are sold on the open market. The money is wired back to Uruguay and then eventually to Panama.

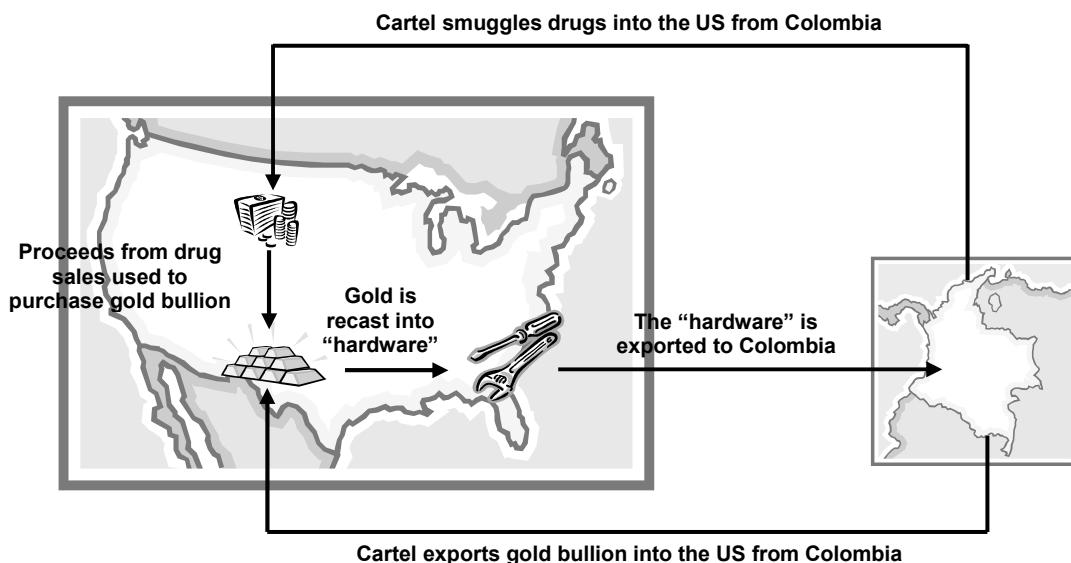


Source: Jeffrey Robinson, *The Laundrymen* (1995). Used by permission of the author.

Commentary -- Unlike black market peso exchange arrangements, rather than smurfing the US currency into the US banking system, the cartel chose to minimise the risk of detection through the use of a falsely described shipment of goods. The shipping documents associated with these falsely described South American "gold bars" were used to legitimise the sale of the US gold bars. The receipts from these US gold sales were then deposited into the US banking system.

Case Study 6

- A Colombian cartel smuggles illegal drugs into the United States and sells them for cash.
- The cash is deposited into the US banking system and then used to purchase gold bullion that the cartel exports from Colombia.
- A group of cooperative jewellers in New York melts down the gold bullion and recasts them as low-value hardware items, such as nuts, bolts and household tools.
- The hardware items are enamelled and exported back to Colombia where they are melted down and recast as gold bullion again.
- The cartel re-exports the gold bullion to the United States where they are sold again and used to repatriate additional funds from drug sales to Colombia.

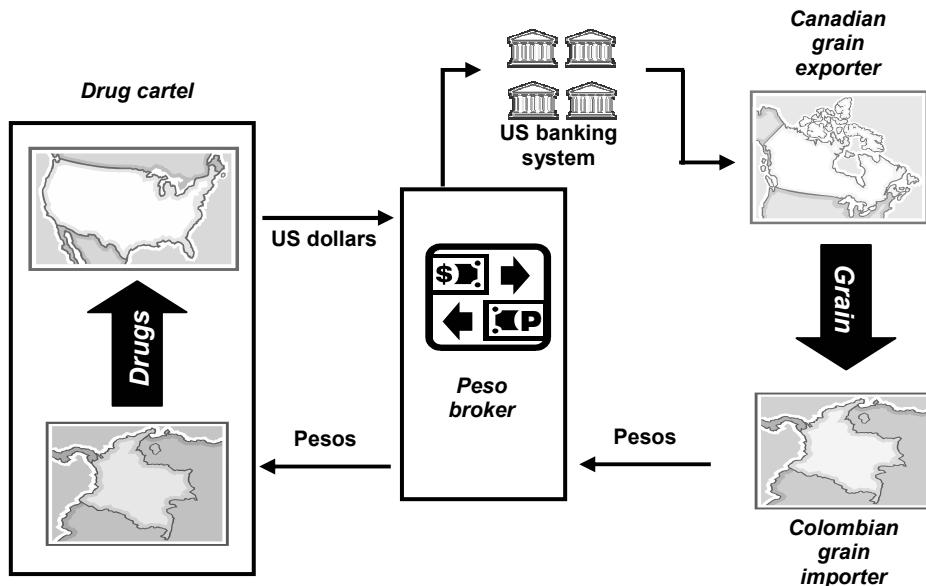


Source: Information provided by the United States.

Commentary -- Like black market peso exchange arrangements, the cartel smurfs the cash from drug sales into the US banking system and then uses this money to buy gold bullion that it has exported from Colombia. The gold is accurately reported to US Customs as "gold bullion", but falsely described to Colombian Customs as "manufactured gold products" in order to claim export credits. The shipping documents presented to US Customs are used to legitimise the sale of the Colombian gold bullion. By disguising the gold bullion as low-value exports to Colombia and then re-exporting the same gold bullion back to the United States, the cartel is able to repatriate the proceeds of the drug sales to Colombia by repeatedly invoicing the same gold bullion.

Case Study 7

- A Colombian drug cartel smuggles illegal drugs into the United States and sells them for cash.
- The drug cartel arranges to sell these US dollars at a discount to a peso broker for Colombian pesos.
- The broker “smurfs” the US dollars from the drug sales into the US banking system.
- The broker uses these funds to pay a Canadian company to ship grain to Colombia (on behalf of a Colombian grain importer). The payment is in the form of a letter of credit (covering 70% of the value of the contract) and third party cheques and electronic fund transfers (covering 30% of the value of the contract).
- The Colombian grain importer sells the grain in Colombia for pesos and repays the broker for financing the shipment.

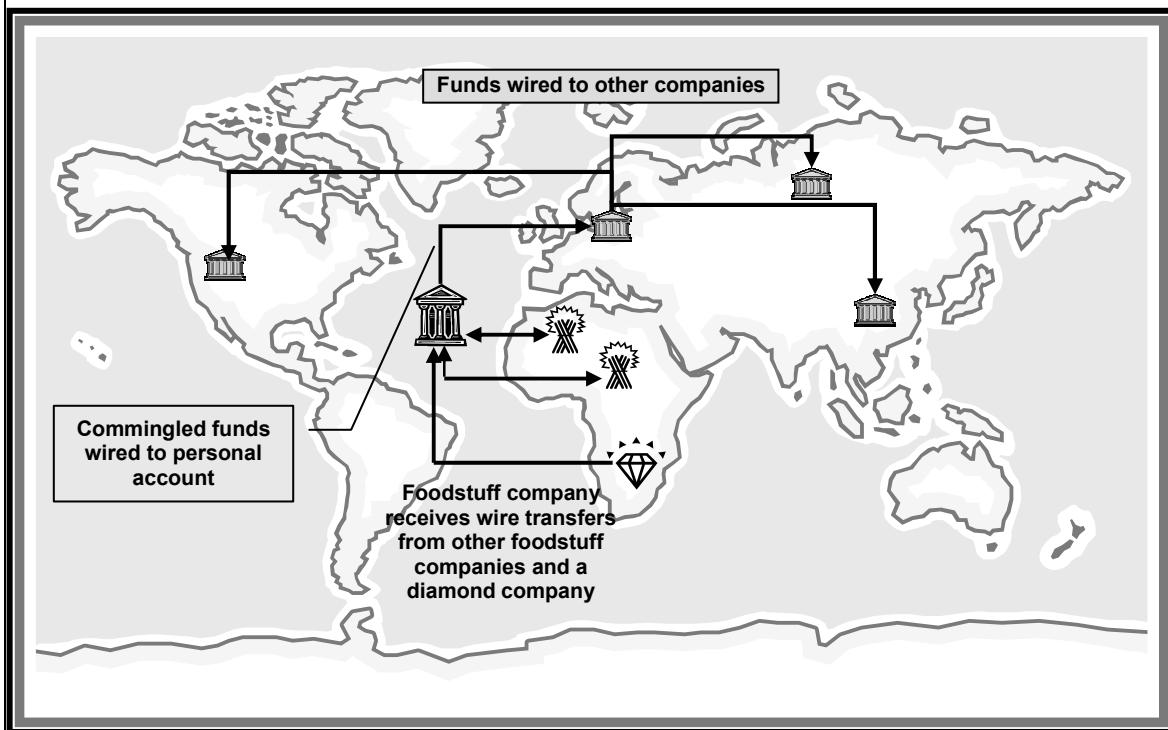


Source: Information provided by Canada.

Commentary -- This is a black market peso arrangement. Unlike the example that is used earlier in the paper, the peso broker smurfs the US dollars from the drug sales into the US banking system, but then uses these funds to purchase grain from a Canadian company for export to Colombia. In this case, the Colombian importer also made use of the two types of payments to try to defraud the Colombian Government of import duties by only declaring the 70 percent of the cost of the shipment covered by the letter of credit.

Case Study 8

- A food product trading company is established in an offshore financial centre and conducts business with several African food product companies.
- The money that the company receives for the sale of its products is immediately transferred from the company's offshore account to the personal account of its manager in Belgium. In turn, the funds are then quickly transferred to several foreign companies.
- The company also receives transfers from an unrelated company in the diamond business. The money from the diamond company is commingled with the company's other business receipts and transferred through Belgium to the same foreign companies.

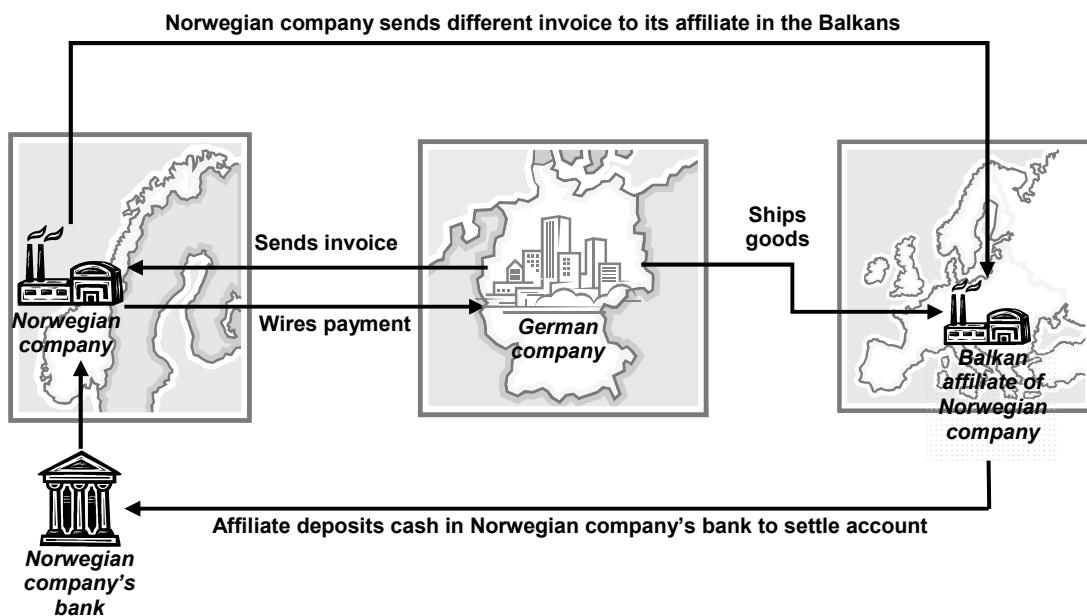


Source: Information provided by Belgium.

Commentary -- This case illustrates the level of additional complexity that can be added to the money trail by commingling illicit funds with the cash flows of legitimate businesses. In this case, the diamond company was subsequently the subject of an investigation into the trade in illegal "blood diamonds".

Case Study 9

- A Norwegian company purchases goods from a German company and directs that the goods be delivered to a branch of the Norwegian company in the Balkans.
- The German company sends the Norwegian company an invoice, which is settled by a wire transfer.
- The Norwegian company then sends the Balkan company a significantly higher invoice, which includes a range of inflated administrative costs.
- The Balkan company settles the invoice by paying cash into the Norwegian company's bank account.
- It is assumed that the Balkan company is transferring the proceeds of crime to the Norwegian company.



Source: Information provided by Norway.

Commentary -- In this case, the Norwegian company “re-invoices” the goods to significantly inflate their value. The Balkan company then deposits cash into the account of the Norwegian company. This “pay on account” transaction is done without any reference to the invoice for the shipped goods. This significantly complicates subsequent efforts to compare invoices and payments. The net effect is to transfer funds from the Balkan company to the Norwegian company with a relatively limited risk of detection.

Case Study 10

- A criminal group imports counterfeit goods from Asia into Belgium using a letter of credit and sells them for cash.
- The group deposits the money into a Belgian bank account and arranges a subsequent letter of credit.
- The group purchases additional counterfeit goods from Asia using the new letter of credit.
- These additional counterfeit goods are sold and the receipts deposited in the bank and used to arrange additional letters of credit.

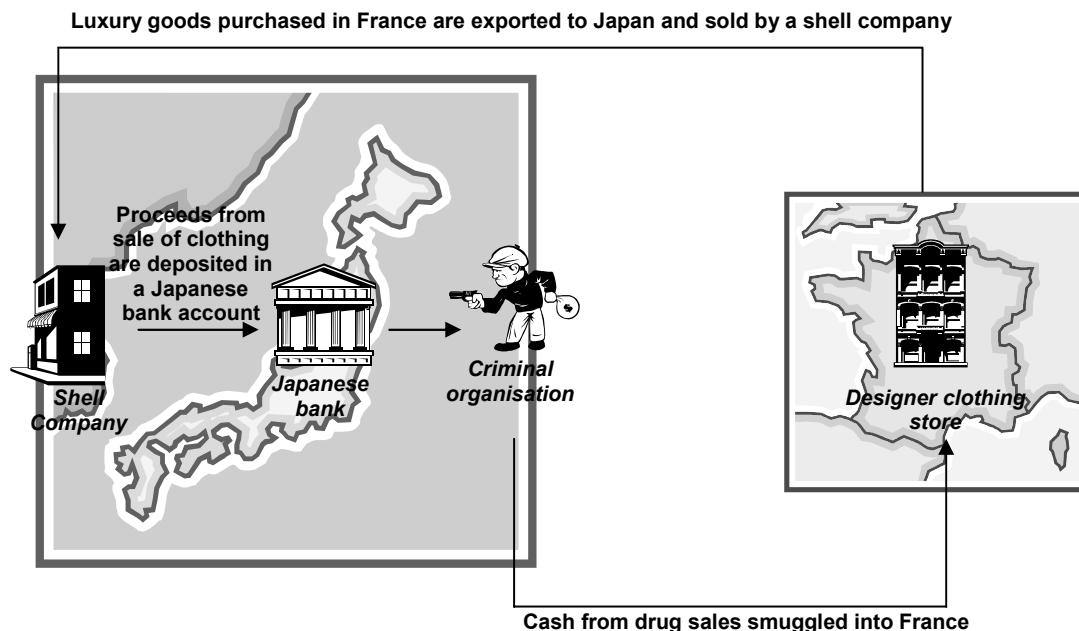


Source: Information provided by Belgium.

Commentary -- In this case, the criminal group was able to use the cash deposited in the bank to arrange letters of credit. Subsequently, it was able to make use of these letters of credit to purchase a series of shipments of counterfeit goods. The criminal group thought that the use of letters of credit related to trade transactions, rather than wire transfers, would increase the appearance of legitimacy of these transactions and reduce their risk of detection.

Case Study 11

- A criminal organisation sells illegal drugs in Japan. The organisation then smuggles the cash out of the country and into France.
- The money is used to purchase luxury goods in designer fashion stores, which are then exported to Japan and resold by a shell company.
- Proceeds from the sales of these luxury goods are deposited into the Japanese banking system.

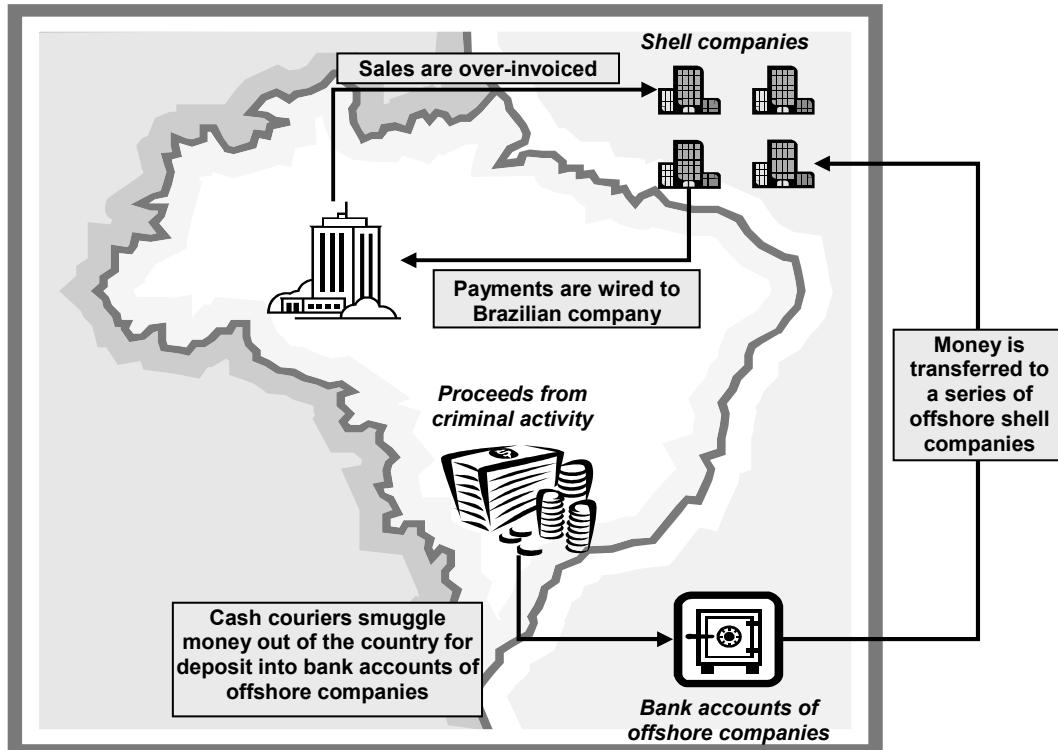


Source: Jeffrey Robinson, *The Laundrymen* (1995). Used by permission of the author.

Commentary – Rather than smurfing, the Japanese currency into the Japanese banking system, the criminal organisation chose to minimise the risk of detection by smuggling the cash out of the country and then using the international trade system to import luxury goods back into Japan. The proceeds from the sale of these goods were then deposited into the Japanese banking system. Suspicions were raised when it was discovered that forged documents were used to export these goods and that the organisation had never applied for a value added tax rebate.

Case Study 12

- A Brazilian company is engaged in a range of illegal activities.
- The cash, which is generated from these activities, is smuggled out of the country by cash couriers and deposited in the bank accounts of offshore companies controlled by the company.
- Funds from these offshore accounts are transferred to offshore shell companies and used to purchase concentrated syrup for soft drinks from the Brazilian company at highly inflated prices.
- The syrup was then sold by the shell companies to other legitimate companies at a significant loss.



Source: Information provided by Brazil.

Commentary -- In this case, the proceeds of crime were transferred to a Brazilian company through the sale of syrup at significantly inflated prices to a number of shell companies. The earnings from these sales were deposited into the company's Brazilian bank account and effectively reintegrated into the legitimate economy. Interestingly, unlike the shipment of scrap metal in Case Study 2, the weight and other physical characteristics of the shipment was unchanged, however, the process of dilution was used to reduce its value from US\$40 a litre to US\$1 a litre.

7. Current Practices

These case studies illustrate that the international trade system is subject to a wide range of vulnerabilities that can be exploited by criminal organisations and terrorist financiers. To examine the capacity of national authorities to combat trade-based money laundering, the FATF project team has made use of a detailed questionnaire to survey current practices in a range of countries.¹⁴ This questionnaire focuses on the ability of various

¹⁴ The 36 countries that responded to this questionnaire were Aruba, Australia, Austria, The Bahamas, Belgium, Brazil, Cambodia, Canada, Chinese Taipei, Fiji, France, Guatemala, Hong Kong, China, Indonesia, Italy, Japan, Kenya, Republic of

government agencies to identify suspicious activities related to trade transactions, to share this information with domestic and foreign partner agencies, and to act on this information. In carrying out this work, particular attention has been focused on the practices of customs agencies, law enforcement agencies, financial intelligence units, tax authorities and banking supervisors.

Customs Agencies

About half of customs agencies indicated that they make use of red flag indicators or other forms of risk analysis to detect potential trade-based money laundering activities. Moreover, almost three-quarters of those performing such analysis believe there is significant scope to make better use of trade data to identify anomalies that could be associated to money laundering or terrorist financing. In turn, this analysis triggered investigations in the case of more than half of respondents and prosecutions in about a quarter of respondents.

Similarly, almost all of respondents indicated that they were able to share trade-based information with law enforcement, financial intelligence units, tax authorities and foreign competent authorities. In the majority of cases, information sharing with law enforcement, financial intelligence units and tax authorities is voluntary. In the case of foreign competent authorities, the standard requirement for information sharing is a memorandum of understanding or customs mutual assistance agreement. Interestingly, less than half of respondents indicated that their customs agencies file suspicious activity reports with their financial intelligence units.

Only a third of respondents indicated that they had training programs in place, while virtually all agreed on the need for better training and understanding of the techniques of trade-based money laundering. In addition, more than half thought that there was scope to better use new technologies, such as X-ray scanners, electronic container seals and radio-frequency identification data. As a general proposition, two-thirds of respondents believed that their countries face serious vulnerabilities to trade-based money laundering activities.

Trade Transparency Units

Customs and law enforcement experience has shown that one of the most effective means of analyzing and investigating suspect trade-based activity is to have systems in place that monitor reported imports and exports between countries. Consistent with the FATF standards on international cooperation, a number of governments are now sharing import and export information in order to detect anomalies in their trade data.

To deal with the massive amounts of data generated by such exercises, new technologies have been developed that standardise this information against a range of variables to establish general patterns of trade activity. In turn, “trade transparency units” make use of this analysis to identify suspicious trading activities that often merit further investigation.

The sharing of trade data can be accomplished between cooperating customs authorities through customs mutual assistance agreements. The success of such arrangements underscores the importance of cooperating nations working together to establish bilateral mechanisms to detect trade anomalies, which may be associated with money laundering, terrorist financing or other financial crimes.

Experience shows that trade transparency units create effective gateways for the prompt exchange of trade data and information between foreign counterparts. As such, they represent a new and important investigative tool to better combat trade-based money laundering and customs fraud.

Korea, Macau, China, Malaysia, Mauritius, Mexico, Mongolia, Montserrat, Namibia, the Netherlands, the Netherlands Antilles, New Zealand, Norway, Peru, Qatar, South Africa, Spain, St. Lucia, Swaziland, United Kingdom and the United States. A detailed summary of the responses of each country has been provided to the FATF Secretariat to facilitate future analytical work in this area.

Law Enforcement Agencies

Interestingly, two-thirds of law enforcement agencies indicated they use trade information as part of their analysis of money laundering and terrorist financing activities. While the bulk of this information is received from financial intelligence units, customs agencies and financial institutions, significant information is also made available by banking supervisors and tax authorities. Almost all of the respondents that made use of this information indicated that it had triggered investigations and two-thirds of these investigations resulted in prosecutions.

While only a third of respondents have access to trade databases, those that do agree that there is significant scope for greater cooperation between customs and law enforcement agencies in this area. Half of the respondents make use of red flag indicators and similarly believe that there is scope for more extensive use of such techniques.

Law enforcement agencies appear to have few problems sharing information with customs agencies, financial intelligence units and tax authorities, although this is largely done on a voluntary basis and under certain conditions, such as to further an ongoing criminal investigation. Most respondents indicated that information sharing with banking supervisors is significantly more complicated (and frequently prohibited) and that information sharing with foreign competent authorities generally requires that a memorandum of understanding or mutual legal assistance treaty is in place. Nevertheless, several respondents indicated that they are generally able to share information on the basis of international reciprocity.

A third of respondents appear to have some level of expertise in the area of trade and a similar number indicated that they have training programs in place. Virtually all respondents agreed on the need for better training and awareness of the techniques of trade-based money laundering. In general, two-thirds of respondents viewed trade-based money laundering activities as presenting a serious risk to their country.

Financial Intelligence Units

Half of financial intelligence units receive suspicious activities reports triggered by concerns about trade-related activities. However, in most countries, the number of such reports is relatively low (e.g. often less than 25 a year). In addition to financial institutions, these reports are received from customs and law enforcement agencies and, to a lesser extent, tax authorities and banking supervisors. About a third of financial intelligence units use trade information as part of their ongoing analysis of money laundering and terrorist financing activities and this information frequently contributes to investigations and prosecutions.

Financial intelligence units indicated that they make extensive use of red flag indicators. In addition, the majority of respondents believe that there is considerable scope to make better use of such indicators and other analytical techniques to promote a more risk-based approach to detecting trade-based money laundering activities. This being the case, it is interesting that only a quarter of financial intelligence units reported that they make use of trade databanks as part of their analysis.

Not surprisingly, financial intelligence units are able to share information with law enforcement agencies, customs agencies, tax authorities and banking supervisors. However, some respondents cautioned that strict commercial confidentiality continues to apply to this information, which limits its use to intelligence purposes. Others indicated that the sharing of trade information is often limited to cases of ongoing criminal investigation. Respondents confirmed that domestic financial intelligence units are able to share information with foreign financial intelligence units, but this generally requires a memorandum of understanding or international reciprocity.

About half of the respondents have trade specialists on their staff, but only a quarter provide training to improve their analysts' understanding of trade-based money laundering techniques. Respondents were virtually unanimous that financial intelligence units would benefit from better training and awareness of the techniques of trade-based money laundering activities. In general, two-thirds of respondents believe that their countries are seriously vulnerable to abuse of the trade system for criminal purposes.

Tax Authorities

Two-thirds of tax authorities indicate that they receive information from customs and law enforcement agencies and financial intelligence units, which directly relates to trade-based money laundering. However, these respondents appear to make limited use of this information in pursuing investigations or prosecutions. This said, a third of tax authorities indicated that they perform analysis that is useful in identifying trade-based money laundering and routinely file suspicious activity reports with their financial intelligence units.

While half of tax authorities have the power to conduct investigations, only a third have a mandate that permits them to examine trade-based money laundering activities. Moreover, if a suspicion of money laundering arises in the course of an audit, only half of the respondents indicated that they are required to report it to competent authorities. Most tax authorities are able to voluntarily share information with customs agencies, law enforcement agencies and financing intelligence units under certain conditions, such as to further an ongoing investigation. Most respondents indicated that sharing information with banking supervisors is significantly more complicated (and frequently prohibited), but that trade-related information from tax audits can be shared with their foreign counterparts if appropriate memoranda of understanding or mutual legal assistance treaties are in place.

Few tax authorities have trade specialists on their staffs or training programs to improve the understanding of trade-based money laundering. Nevertheless, tax authorities unanimously agreed on the need for better training and awareness of trade-based money laundering techniques. In general, two-thirds of respondents considered their countries to be vulnerable to the use of trade transactions for criminal purposes.

Banking Supervisors

In most countries, banking supervisors have limited involvement in trade-based money laundering activities. However, a third of respondents indicated that they frequently receive information related to suspicious trade-based activities from their financial institutions. Moreover, a third of respondents indicated that they undertake analysis that can be used to identify trade-based money laundering and routinely report suspicious activities to their financial intelligence units. Just under half of respondents use red flag indicators and other analytical techniques to identify high-risk commodities, companies or countries and most see significant scope to make better use of such techniques. A third of respondents have used this information to trigger investigations, but in only 10 percent of these cases has it led to prosecutions.

Banking supervisors appear to have considerable scope to voluntarily share trade-related information with customs agencies, law enforcement agencies, financial intelligence units and tax authorities. In addition, the majority of banking supervisors indicated that they could share trade information with foreign competent authorities with certain restrictions. Not surprisingly, few banking authorities have expertise on the techniques of trade-based money laundering and most have little or no training programs in this area. In general, about half of respondents considered their countries to be vulnerable to the use of trade transactions for criminal purposes.

Red Flag Indicators

Trade-Based Money Laundering “Red Flag” Indicators

The respondents to the FATF project team’s questionnaire reported a number of red flag indicators that are routinely used to identify trade-based money laundering activities. These include situations in which:

- Significant discrepancies appear between the description of the commodity on the bill of lading and the invoice;
- Significant discrepancies appear between the description of the goods on the bill of lading (or invoice) and the actual goods shipped;
- Significant discrepancies appear between the value of the commodity reported on the invoice and the commodity’s fair market value;
- The size of the shipment appears inconsistent with the scale of the exporter or importer’s regular business activities;
- The type of commodity being shipped is designated as “high risk” for money laundering activities; *
- The type of commodity being shipped appears inconsistent with the exporter or importer’s regular business activities;
- The shipment does not make economic sense; **
- The commodity is shipped to (or from) a jurisdiction designated as “high risk” for money laundering activities;
- The commodity is transshipped through one or more jurisdictions for no apparent economic reason;
- The method of payment appears inconsistent with the risk characteristics of the transaction; ***
- The transaction involves the receipt of cash (or other payments) from third party entities that have no apparent connection with the transaction;
- The transaction involves the use of repeatedly amended or frequently extended letters of credit; and
- The transaction involves the use of front (or shell) companies.

Customs agencies make use of more targeted information that relates to specific exporting, importing or shipping companies. In addition, red flag indicators that are used to detect other methods of money laundering could be useful in identifying potential trade-based money laundering cases.

* For example, high-value, low-volume goods (e.g. consumer electronics), which have high turnover rates and present valuation difficulties.

** For example, the use of a forty-foot container to transport a small amount of relatively low-value goods.

*** For example, the use of an advance payment for a shipment from a new supplier in a high-risk country.

8. Key Findings

The research work carried out for this project has led to the following key findings with respect to trade-based money laundering:

- Trade-based money laundering is an important channel of criminal activity and, given the growth in world trade, it represents an increasingly important money laundering and terrorist financing vulnerability.
- Trade-based money laundering practices vary in complexity. The most basic schemes are fraudulent trade practices (e.g. under- or over-invoicing of receipts). However, more complicated schemes integrate these fraudulent practices into a web of complex transactions, which also involve the movement of value through the financial system (e.g. cheques or wire transfers) and/or the physical movement of banknotes (e.g. cash couriers). The use of these complex transactions further obscures the money trail and complicates detection.
- Trade data analysis and the international sharing of trade data are useful tools for identifying trade anomalies, which may lead to the investigation and prosecution of trade-based money laundering cases.
- While customs agencies, law enforcement agencies, financial intelligence units, tax authorities and banking supervisors can exchange trade-related information, this is frequently restricted to certain circumstances or undertaken on a voluntary rather than mandatory basis. In addition, most financial intelligence units do not consistently receive suspicious activity reports related to trade transactions.
- Most customs agencies, law enforcement agencies, financial intelligence units, tax authorities and banking supervisors appear less capable of identifying and combating trade-based money laundering than they are in dealing with other forms of money laundering and terrorist financing. In part, this appears to reflect their more limited understanding of the techniques of this form of money laundering.
- Most customs agencies, law enforcement agencies, financial intelligence units, tax authorities and banking supervisors identified a pressing need for more training to ensure that their staff has sufficient knowledge to recognise trade-based money laundering.
- Most customs agencies, law enforcement agencies, financial intelligence units, tax authorities and banking supervisors indicated serious concerns about the vulnerabilities of their countries to trade-based money laundering. In addition, most believe that their countries have only limited measures in place to mitigate trade-based money laundering activities.

9. Issues for Consideration

Trade-based money laundering is an important money laundering technique that has received limited attention from policymakers. As international trade continues to grow and the standards applied to other money laundering techniques have become increasingly effective, the use of trade-based money laundering channels can be expected to become increasingly attractive.

This study suggests that the level of understanding of trade-based money laundering appears broadly similar to that relating to the movement of value through the financial system a decade ago. At that time, “front line” workers in most financial institutions were largely unaware as to what constituted suspicious activity as well as what actions they should take if such activities were detected.

This study suggests that customs agencies, law enforcement agencies, financial intelligence units, tax authorities and banking supervisors currently face similar challenges with respect to understanding the techniques of trade-based money laundering and detecting such activities.

Looking ahead, there appears to be a number of practical steps that could initially be taken to improve the capacity of national authorities to cope with trade-based money laundering. These can be summarised as building better awareness, strengthening measures to identify trade-based illicit activity and improving international co-operation.

Building Better Awareness

The review of current practices of those countries responding to the FATF questionnaire showed that there was almost unanimous agreement on the need for a stronger focus on training programs for competent authorities (e.g. customs agencies, law enforcement agencies, financial intelligence units, tax authorities and banking supervisors) to better identify trade-based money laundering techniques. In turn, improved training could result in substantial increases in the number of suspicious transaction reports filed with financial intelligence units. In addition, such training programs could be usefully supplemented by outreach sessions to the private sector.

Strengthening Current Measures

There are a number of actions that countries could take to better identify trade-based illicit activity. The simplest is to ensure that competent authorities and financial institutions have access to the case studies and red flag indicators in this study. In addition, most countries would benefit from more effective information sharing among competent authorities at the domestic level. For example, it would be useful if law enforcement agencies could seek information from customs agencies on specific trade transactions in advance of a full-fledged criminal investigation.

Improving International Co-operation

Countries need to work cooperatively to identify and combat trade-based money laundering. Consistent with FATF standards, countries could put clear and effective gateways in place to facilitate the prompt and constructive exchange of information. In practice, this may require broader use of memoranda of understanding and mutual legal assistance treaties between countries to facilitate the sharing of information related to specific transactions. It also means greater recourse to mutual assistance agreements between customs agencies to facilitate the exchange of export and import data in order to identify trade anomalies that may indicate potential trade-based money laundering abuses.

Annex I

Role of Financial Institutions in the Settlement of Trade Transactions

Financial institutions can play three roles in the settlement of international trade transactions, namely, money transmission, provision of finance, and lending the institution's name to the transaction. Below is a simple description of these roles.

Money transmission – is the transfer of funds between parties associated with the trade transaction. (e.g. a wire transfer).

Provision of finance – is the provision of credit to support the trade transaction. In these situations, as a standard practice, the financial institution conducts standard credit checks against the customer. In addition, the financial institution may conduct a check against the underlying transaction.

Lending the financial institution's name to the transaction – occurs in two situations: (1) where the financial institution undertakes to make payment subject to certain conditions (e.g. a letter of credit), and (2) where the financial institution undertakes to make payment if the buyer defaults (e.g. a guarantee).

In addition to monitoring in accordance with domestic anti-money laundering and counter-terrorist financing regulations, the levels of scrutiny and information available on the underlying transaction will depend upon the bank's exposure to credit and reputational risk associated with the provision of finance and lending of the bank's name to the transaction. For example, because an institution's risk exposure when conducting a money transmission is low, it is unlikely that the institution will closely scrutinise or even see the documents supporting the transaction (e.g. bills of lading or invoices).

Annex II

This annex contains a sample of the key information that was provided in the responses to the FATF Project Team's questionnaire. In some cases, the respondents did not answer all questions.

Customs Agencies (24 respondents)

	Yes	No
Do you perform analysis that could be used to identify, investigate, or prosecute trade-based money laundering?	12	12
Do you undertake analysis of trade data to identify trade anomalies that could be related to money laundering or terrorist financing?	13	11
Can you provide a list of "red-flag" indicators of potential trade-based money laundering that could trigger suspicions or a possible investigation?	12	12
Do you make use of any risk models or analytical tools to identify high-risk companies, commodities, countries or activities?	19	5
Is there scope to make better use of trade data analysis to identify trade anomalies that could justify further investigation	18	5

Has information or analysis led to specific investigations and subsequent prosecutions?	
Investigations	14
Prosecutions	6
No	10

Is information sharing between customs agencies and other domestic agencies mandatory or voluntary?				
	Law Enforcement	Financial Intelligence Unit	Tax Authority	Banking Supervision
Mandatory	10	9	6	1
Voluntary	13	11	14	10
Not applicable	1	0	0	8

With which of the following domestic agencies can trade-related information be shared?				
	Law Enforcement	Financial Intelligence Unit	Tax Authority	Banking Supervision
Yes	10	6	10	2
Yes, with restrictions	13	15	10	11
No	1	0	0	7

Can trade-related information be shared with foreign competent authorities?	
Yes	7
Yes, with restrictions	16
No	0

	Yes	No
Do you have training programs in place that deal with the subject of trade-based money laundering?	8	15
Do you see the need for better training and awareness of the techniques of trade-based money laundering?	22	1
Do you consider your country to be vulnerable to the use of trade-based money laundering for criminal purposes?	17	7

Law Enforcement Agencies (20 respondents)

From which sources does your organisation receive information related to trade-based money laundering?		
Customs Agencies	11	
Financial Intelligence Units	13	
Tax Authorities	7	
Banking Supervisors	5	
Financial Institutions	10	
Others	9	

Has this information led to investigations and subsequent prosecutions?		
Investigations	18	
Prosecutions	13	
No	2	

	Yes	No
Has trade information been used as part of your analysis or investigations of money laundering or terrorist financing?	15	5
Do you have access to a trade information database that you can use to advance analysis or investigations of money laundering or terrorist financing?	7	13
Is there scope to improve cooperation between law enforcement and customs agencies through the use of searchable databases relating to individual companies or transactions?	15	5
Can you provide a list of ("red flag") risk indicators of potential trade-based money laundering activity that could trigger suspicions or a possible investigation?	7	12
Is there scope to make better use of risk indicators to promote a more risk-based approach to detecting trade-based money laundering activity?	8	10

Is information sharing between law enforcement and other domestic agencies mandatory or voluntary?				
	Customs Agencies	FIU	Tax Authority	Banking Supervisor
Mandatory	6	5	5	2
Voluntary	11	9	11	8
Not applicable	1	1	0	8

Trade Based Money Laundering

With which of the following domestic agencies can trade-related information be shared?				
	Customs Agencies	FIU	Tax Authority	Banking Supervisor
Yes	6	6	3	0
Yes, with restrictions	12	8	14	8
No	0	0	0	6

Can trade-related information be shared with foreign competent authorities?	
Yes	3
Yes, with restrictions	13
No	1

	Yes	No
Do you have training programs in place that deal with the subject of trade-based money laundering?	6	13
Do you see the need for better training and awareness of the techniques of trade-based money laundering?	17	2
Do you consider your country to be vulnerable to the use of trade transactions for criminal purposes?	13	6

Financial Intelligence Units (21 respondents)

Have you received Suspicious Activity Reports (SARs) that were triggered by suspicious trade transactions?	
Yes	12
No	2
Not applicable	5

Have you received SARs that were triggered by suspicious trade transactions?		
	In the past year?	In the past three years?
0	1	1
1 - 5	0	4
6 - 25	6	4
More than 25	8	5
Not applicable	5	5

From which sources does your organisation receive information related to trade-based money laundering?	
Customs Agencies	11
Law Enforcement Agencies	12
Tax Authorities	8
Banking Supervisors	3
Financial Institutions	17
Others	3
Not applicable	2

	Yes	No
Has trade information been used as part of your analysis or investigations of money laundering or terrorist financing?	11	10
Is trade information routinely used in your analysis or investigations?	8	13

Has this information led to investigations and subsequent prosecutions?	
Investigations	14
Prosecutions	10
No	5

	Yes	No
In situations where trade-based money laundering is suspected, do transactions involve trade finance products such as letters of credit or documentary collections?	11	8
Does your organisation collect SWIFT transactional data that is used in your analysis or investigations of money laundering or terrorist financing?	8	13
Can you provide a list of ("red flag") risk indicators of potential trade-based money laundering activity that could trigger suspicions or a possible investigation?	14	7
Is there scope to make better use of risk indicators to promote a more risk-based approach to detecting trade-based money laundering activity?	10	6
Do you have access to a trade information database that you can use to advance analysis or investigations of money laundering or terrorist financing?	6	15

With which of the following domestic agencies can trade-related information be shared?				
	Customs Agencies	Law Enforcement	Tax Authority	Banking Supervisor
Yes	10	11	9	9
Yes, with restrictions	8	7	7	3
No	0	1	1	2

Can trade-related information be shared with foreign competent authorities?	
Yes	7
Yes, with restrictions	14
No	0

	Yes	No
Does your agency have specialists with particular expertise in the area of trade?	12	9
Do you have training programs in place that deal with the subject of trade-based money laundering?	4	16
Do you see the need for better training and awareness of the techniques of trade-based money laundering?	18	2
Do you consider your country vulnerable to the use of trade transactions for criminal purposes?	15	4

Trade Based Money Laundering

Tax Authorities (21 respondents)

Do you receive information on suspicious activities related to trade-based money laundering?

Yes	10
No	11

Do you have access to a trade information database that you can use to advance analysis or investigations of money laundering or terrorist financing?

Yes	5
No	8
Not applicable	8

	Yes	No
Do you perform analysis that could be used to identify, investigate, or prosecute trade-based money laundering?	7	13
Do you file suspicious activity reports (SARs) with your financial intelligence unit relating to suspicious trade transactions?	7	14
Can you provide a list of "red-flag" indicators of potential trade-based money laundering that could trigger suspicions or a possible investigation?	9	12
Is there scope to make better use of risk indicators to promote a more risk-based approach to detecting trade-based money laundering activity?	5	10
Do you conduct your own investigations or are you involved with other agencies in investigations into potential trade-based money laundering activity?	10	10
Do you have a mandate to look for money laundering activities in the course of conducting an audit?	7	14
If a suspicion of money laundering arises in the course of an audit, are you required to report it to a competent authority?	12	9

Can a competent authority request tax information as part of an investigation on trade-based money laundering?

Yes, in all cases	6
Yes, with restrictions	14
No	1

Is information sharing between tax authorities and other domestic agencies mandatory or voluntary?

	Customs Agencies	Law Enforcement	FIU	Banking Supervisor
Mandatory	7	6	10	2
Voluntary	10	9	4	5
Not applicable	1	3	4	11

With which of the following domestic agencies can trade-related information be shared?

	Customs Agencies	Law Enforcement	FIU	Banking Supervisor
Yes	9	4	8	2
Yes, with restrictions	8	11	6	4
No	2	3	5	10

Can trade-related information be shared with foreign competent authorities?		
Yes	2	
Yes, with restrictions	12	
No	5	

	Yes	No
Does your agency have specialists with particular expertise in the area of trade?	4	15
Do you have training programs in place that deal with the subject of trade-based money laundering?	5	15
Do you see the need for better training and awareness of the techniques of trade-based money laundering?	20	1
Do you consider your country to be vulnerable to the use of trade-based money laundering for criminal purposes?	15	5

Banking Supervisors (23 respondents)

From which sources does your organisation receive information related to trade-based money laundering?		
Customs Agencies	2	
Law Enforcement Agencies	2	
Financial Intelligence Units	4	
Banking Supervisors	1	
Financial Institutions	7	
Others	2	

	Yes	No
Do you perform analysis that could be used to identify, investigate, or prosecute trade-based money laundering?	6	17
Can you provide a list of ("red flag") risk indicators of potential trade-based money laundering activity that could trigger suspicions or a possible investigation?	12	6
Do you make use of any risk models or analytical tools to identify high-risk companies, commodities, countries or activities?	9	14

With which of the following domestic agencies can trade-related information be shared?				
	Customs Agencies	Law Enforcement	FIU	Tax Authority
Yes	2	4	11	3
Yes, with restrictions	10	11	3	9
No	5	3	3	4

Is information sharing between banking supervisor and other domestic agencies mandatory or voluntary?				
	Customs Agencies	Law Enforcement	FIU	Tax Authority
Mandatory	1	6	9	2
Voluntary	10	8	4	9
Not applicable	5	3	3	4

Trade Based Money Laundering

Can trade-related information be shared with foreign competent authorities?		
Yes	1	
Yes, with restrictions	12	
No	4	

	Yes	No
Does your agency have specialists with particular expertise in the area of trade?	3	20
Do you have training programs in place that deal with the subject of trade-based money laundering?	3	18
Do you consider your country to be vulnerable to the use of trade transactions for criminal purposes?	12	5

Glossary

Alternative remittance systems (ARS) -- are operations to transfer money outside of the formal banking system. These include unregulated networks (e.g. underground banks) and regulated operations (e.g. money service businesses).*

Bill of lading -- is a document signed by a carrier to confirm the receipt of goods to and from the points indicated.

Capital flight -- is the rapid outflow of money from a country often in response to an economic event that disturbs investors and causes them to lose confidence in the country's financial stability.

Cash couriers -- are individuals that transport currency or bearer-negotiable instruments from one country to another country for the purpose of laundering the proceeds of crime or financing terrorist activities.

Commingling -- is the process of combining the proceeds of illicit activities with the earnings of legitimate businesses for the purpose of disguising the source of these illicit funds and complicating the money trail.

Front company -- is a corporate vehicle that can be used to obscure the beneficial ownership of an organisation.

Guarantee -- is an undertaking, usually on the part of a bank, to fulfill the obligations of another party or to pay a specified amount of money upon presentation of specified documents indicating that the guaranteed party has defaulted on certain obligations.

Hawala -- is a specific form of an alternative remittance system operation. A hawaladar is the operator or owner of a hawala.

Letter of credit -- is an undertaking, usually on the part of a bank and at the request of a customer, to pay a named beneficiary a specified amount of money upon presentation of specified documents set out in the terms and conditions of the letter of credit.

Shell Company -- is a company that is incorporated but has no significant assets or operations.

Smurfing (or structuring) -- is a money laundering technique, which involves the splitting up of a large bank deposit into a number of smaller deposits to evade the suspicious activity reporting requirements of financial institutions.

Trade-based money laundering -- is the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimise their illicit origin.

Trade Transparency Units -- are arrangements to promote the sharing of trade data between cooperating customs agencies for the purpose of detecting and analysing suspicious trading activities.

Transfer pricing -- are pricing agreements established by mutual agreement rather than free market forces. In practice, these are often associated with intra-company transactions.

* For more information, see the Financial Action Task Force's *Money Laundering and Terrorist Financing Typologies Report for 2004-2005*.

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Financial Action Task Force

Groupe d'action financière

FATF Guidance Document

Best Practices Paper **Best Practices on Trade Based Money Laundering**

20 June 2008

Please note that this document refers to the FATF Recommendations as last updated and published in October 2004, and does not yet take into account the 2012 revision of the FATF Recommendations.

See www.fatf-gafi.org/recommendations for the 2012 FATF Recommendations, including the conversion table from the old Recommendation to the new FATF Recommendation.

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BEST PRACTICES PAPER ON TRADE BASED MONEY LAUNDERING

Money laundering and terrorist financing through the trade system

Introduction

1. The Financial Action Task Force (FATF) has recognised misuse of the trade system as one of the main methods by which criminal organisations and terrorist financiers move money for the purpose of disguising its origins and integrating it into the formal economy. As the anti-money laundering (AML) and counter-terrorist financing (CFT) standards that have been applied to other money laundering techniques have become increasingly effective, such abuse of the trade system is expected to become increasingly attractive. However, currently, many customs agencies, law enforcement agencies, financial intelligence units (FIU), tax authorities and banking supervisors (*i.e.* competent authorities) appear less capable of identifying and combating trade-based money laundering than they are in dealing with other forms of money laundering and terrorist financing.

2. The objective of this best practices paper is to improve the ability of competent authorities to collect and effectively utilise trade data, both domestically and internationally, for the purpose of detecting in a risk-based manner and investigating money laundering (ML) and terrorist financing (TF) through the trade system. The FATF will continue to explore vulnerabilities in the trade system, including those related to trade finance, with a view to identifying other measures that could be considered in combating illicit use of the trade system.

Statement of the problem

3. The FATF typologies studies indicate that criminal organisations and terrorist groups are exploiting vulnerabilities in the international trade system to move value for illegal purposes. A number of specific money laundering cases were identified which involved the proceeds from various types of predicate offences to include, but not limited to, illicit trafficking in narcotic drugs, illicit trafficking in stolen or other goods, corruption and bribery, fraud, counterfeiting/piracy of products and smuggling. The most basic schemes involve fraudulent trade practices such as: over- and under-invoicing of goods and services, multiple invoicing of goods and services, over- and under-shipments of goods and services, and falsely describing goods and services. More complicated schemes integrate these fraudulent practices into a complex web of transactions and movements of goods.¹ Inherent vulnerabilities in the international trade system, including the enormous volume of trade flows, which obscures individual transactions, provide abundant opportunity for criminal organisations and terrorist groups to transfer value across borders.

Definitions

4. For the purposes of this best practices paper, the following definitions apply.

5. The term *trade-based money laundering and terrorist financing (TBML/FT)* refers to the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimise their illegal origins or finance their activities. Examples of how TBML/FT may be carried out

¹ Some examples may include moving value through the financial system (*e.g.* using cheques or wire transfers), the use of front companies, the physical movement of banknotes (*e.g.* using cash couriers), and concealing bulk cash in cargo.

include, but are not limited to: misrepresentation of the price, quantity or quality of imports or exports; and money laundering through fictitious trade activities and/or through front companies.

6. The term *trade data* refers to whatever information a jurisdiction collects, by paper or electronically, on its import-export forms or supporting documentation.² For example, such information usually includes a description of the goods being imported or exported, their quantity, value, weight, customs or tariff code number, the mode of transportation by which the goods are being imported or exported, and/or the name and address of the exporter (consignor), importer (consignee), and shipping company. In some cases, financial or banking data is also collected.

7. The term *trade authorities* refers to the authorities who are responsible for collecting, analysing and/or storing trade data.

8. The term *investigative authorities* refers to the competent authorities who are responsible for investigating money laundering, terrorist financing and/or the underlying predicate offence (*e.g.* customs fraud, smuggling, narcotics trafficking).³

9. The term *trade finance* refers to the financial component of an international trade transaction (*i.e.* managing the payment for goods and related services being imported or exported). Trade finance activities may involve, among other things, managing payments for open account trading, or issuing letters of credit, standby letters of credit and guarantees.

10. The term *trader* refers to anyone who facilitates the exchange of goods and related services across national borders, international boundaries or territories. This would also include a corporation or other business unit organised and operated principally for the purpose of importing or exporting goods and services (*e.g.* import/export companies).

Capacity building and awareness raising

11. A review of the current practices of various jurisdictions shows that there is need for a stronger focus on training programs for competent authorities to enhance their ability to identify TBML/FT techniques. Consequently, a basic principle guiding the establishment of these best practices is that, in order to raise awareness and build expertise to combat TBML/FT, countries could agree to incorporate TBML/FT into existing training programs on AML/CFT. Such programs could include training to relevant law enforcement agencies concerning the existence and relevance of financial and trade data to assist in the identification of TBML/FT. Considering the challenges that may face low capacity countries in providing the training consistent with this guidance, technical assistance providers could consider incorporating TBML/FT into existing technical assistance activities.

12. Consistent with this basic principle, countries are encouraged to provide training on TBML/FT techniques to the staff of trade authorities, investigative authorities, customs agencies, tax authorities, the financial intelligence unit, prosecutorial authorities, banking supervisors and any other authorities that the country identifies as being relevant to the fight against TBML/FT (*e.g.* specialised units such as Trade Transparency Units). This training may be incorporated into existing training programmes on AML/CFT or, where no such programmes are in place, on a stand-alone basis. Countries can leverage existing expertise by developing TBML/FT training programmes in collaboration with authorities that already have

² The collection, use and sharing of trade data is subject to international agreements agreed between two or more countries.

³ In some cases, customs authorities will not have the responsibility or authority to conduct such investigations.

related experience (*e.g.* cases involving customs fraud, VAT fraud-related money laundering, black market peso exchanges, tax and excise offences may also involve a TBML/FT component). The participation of foreign experts and counterparts in such training is also useful, given the global nature of TBML/FT.

13. It is best practice in this area to tailor training programmes to meet the specific requirements and needs of different authorities. For example, financial and trade data analysis is a useful tool for identifying trade anomalies, which may lead to the investigation and prosecution of TBML/FT cases. Consequently, training programmes for analytical and investigative authorities could include a focus on the existence and relevance of financial and trade data to crime targeting, and techniques for conducting such analysis. Such techniques may include:

- a) Comparing domestic and foreign import/export data to detect discrepancies in the Harmonized Tariff Schedule, country of origin, manufacturer, importer/exporter, ultimate consignee, broker, unit price, commodity activity by time period, and port of import/export.
- b) Analysing financial information collected by the FIU to identify patterns of activity involving the importation/exportation of currency, deposits of currency in financial institutions, reports of suspicious financial activities, and the identity of parties to these transactions.
- c) Examining cargo movements through the comparison of import/export documentation between two countries to verify that the data reported to one country's authorities matches the data reported to the other country's authorities.
- d) Examining domestic import data with an automated technique, such as Unit Price Analysis, to compare the average unit price for a particular commodity and identify traders who are importing commodities at a substantially higher or lower price than the world market.
- e) Comparing information such as the origin, description and value of the goods, particulars of the consignee and consignor, and the route of shipment with intelligence information in existing databases to detect any irregularities, targets or risk indicators.
- f) Using statistical analysis methods, such as linear regression models, on trade data concerning individual, non-aggregated imports and exports.
- g) Comparing export information with tax declarations to detect discrepancies.
- h) Paying particular attention to trade transactions that display known red flag indicators of TBML/FT activity.
- i) Cross-comparing known typologies of risk (such as those identified in the FATF Typologies Report on Trade-based Money Laundering⁴) with trade data, information on cross-border monetary transfers associated with the payment of goods, intelligence, tax and wealth information.
- j) Taking appropriate follow-up action when anomalies and discrepancies in trade and financial transactions are identified. Depending on the circumstances, appropriate follow-up action could involve asking the trader for further explanation and supporting documents; auditing traders who have presented discrepancies to check the volume of their business, regularity of their operations,

⁴. FATF Typologies Report on Trade-based Money Laundering dated 23 June 2006.

the kind of goods exported, and connections with organised crime or any other illicit activity; and/or making the completed analysis available to the investigative authorities.

14. Providing services to their customers who are engaging in trade transactions, financial institutions also play an important role in the detection of TBML/FT. Consequently, it is best practice to include in training programmes for banking supervisors a focus on the importance of evaluating the adequacy of a bank's policies, procedures and processes for handling trade finance activities. Specific aspects to cover include:

- a) Assessing the adequacy of a bank's systems for managing the risks associated with trade finance activities, including whether the bank effectively identifies and monitors its trade finance portfolio for suspicious or unusual activities, particularly those that pose a higher risk for money laundering.
- b) Determining whether a bank's system for monitoring trade finance activities for suspicious activities, and for reporting suspicious activities, is adequate, given the bank's size, complexity, location, and types of customer relationships.
- c) Sample testing trade finance accounts with a view to verifying whether the bank is meeting its customer due diligence, record keeping, monitoring and reporting obligations.
- d) Providing AML training to financial institutions' global trade services departments and personnel.⁵

15. Countries are also encouraged to conduct outreach and awareness raising to the private sector concerning TBML/FT issues. The issues covered by such outreach could include an explanation of how trade finance activities may be vulnerable to abuse by terrorist and other criminals, a description of the national measures which have been implemented to counter such activity, information concerning TBML/FT typologies (*i.e.* methods, trends and techniques), red flag indicators and sanitised case studies. Financial institutions could be required to cover these same issues in their internal training programs, policies and controls. Feedback from the private sector on their experience in handling trade finance and implementing measures to combat TBML/FT could also be incorporated into training programmes, as appropriate.

16. To ensure that a sufficiently wide audience benefits from awareness raising and training on TBML/FT, countries are encouraged to consider using a combination of delivery methods, such as: offering or participating in conferences, seminars, workshops and other events, including those organised by the private sector; making presentations; holding inter-agency meetings; developing internet-based learning tools (e-learning); publishing guidance; posting information on the websites of competent authorities; including relevant information in the annual reports or other publications of competent authorities; or sending relevant materials to contacts directly. In the case of financial institutions, such materials could be sent to individual institutions directly or through their supervisor.

Typologies and red flag indicators

17. Another basic principle guiding the establishment of these best practices is that countries could agree to make case studies and red flag indicators identified in the typologies report⁶ available to competent authorities and financial institutions.

⁵. Currently, many financial institutions focus their AML training at the customer level and not at their personnel working in their trade services departments.

18. Consistent with this basic principle, countries are encouraged to disseminate TBML/FT typologies, red flag indicators and sanitised case studies (particularly those identified in the FATF Typologies Report on Trade-based Money Laundering) to financial institutions and all competent authorities which the country has identified as being relevant to the fight against TBML/FT. Training programmes for both competent authorities and financial institutions could also include such information. Additionally, financial institutions could be encouraged to include these materials in their internal guidance and training manuals, and to keep their employees informed of developments in the area of TBML/FT.

19. Since TBML/FT has received relatively little attention from policy makers to date, it is important to continue increasing the pool of knowledge in this area. Consequently, countries are encouraged to conduct further study of TBML/FT at the national and regional level. Mechanisms for further study include: periodic joint meetings of relevant domestic authorities (*e.g.* trade and investigative authorities, customs agencies and the FIU) to discuss and share new and emerging TBML/FT trends and patterns; joint investigations or collaboration with foreign authorities; and knowledge sharing through the co-ordination of and participation in the work of relevant international and regional organisations such as the FATF, FATF-style Regional Bodies, Egmont Group, Interpol, Europol, World Trade Organisation (WTO) and the World Customs Organisation (WCO). Consultation with the private sector is also encouraged. For instance, some financial institutions may be able to contribute trade-specific red flag indicators which have been developed in-house for their own trade finance specialists.

Domestic mechanisms to link the work of relevant authorities

20. A review of the current practices of various jurisdictions shows that most countries would benefit from more effective information sharing among competent authorities at the domestic level, which leads to the following basic principle. In order to ensure that the expertise of competent authorities includes a focus on combating TBML/FT, jurisdictions could develop a domestic mechanism to link the work of authorities responsible for collecting, analysing and storing trade data with authorities responsible for investigating money laundering and terrorist financing.

21. In keeping with this basic principle, it is best practice for countries to first identify where trade data and relevant financial information are being stored. For instance, the responsibility of collecting and storing trade data may be shared by more than one agency (*e.g.* a customs agency, a department of statistics, a trade ministry, et cetera). Likewise, relevant financial information, including information relating to trade finance, may be held by trade authorities, the FIU, and/or the tax authorities. The next step is to ensure that there are clear and effective gateways, mechanisms or channels that allow the investigative authorities access, directly or indirectly, on a timely basis to trade data and relevant financial information, consistent with domestic privacy and data protection laws.

22. The following are examples of gateways, mechanisms or channels that can be used to facilitate information sharing among trade and investigative authorities that can be used in accordance with the national legal framework: memoranda of understanding, information sharing agreements, the use of liaison officers and the establishment of multi-agency task forces. Another possibility is to establish a specialised unit that is designated responsibility for monitoring imports and exports, analysing trade data and identifying anomalies with a view to detecting TBML/FT and other illicit activity, and supporting related investigations and prosecutions. The Trade Transparency Unit (TTU) concept, as established by some countries, is one such model.⁷ It is best practice in this area to identify and address practical obstacles to

⁶. FATF Typologies Report on Trade-based Money Laundering dated 23 June 2006.

⁷ TTU staff have experience in conducting financial, money laundering and trade fraud investigations, and also have access to a wide range of information, including customs information on cargo movements, trade data and financial information collected by the FIU. The location of a TTU would be dependent on where it

information sharing. For instance, where relevant information is held by authorities that are not yet an integral part of the traditional AML/CFT framework, information sharing gateways, mechanisms or channels may need to be established, preferably in conjunction with awareness raising and training in TBML/FT issues. Technical impediments, such as incompatible computer systems, could be addressed through the development of a single consolidated software platform for sharing information among trade and investigative authorities. Legal barriers might be addressed by having the competent authorities enter into a memorandum of understanding which covers information exchange. A lack of capacity to respond to information requests concerning TBML/FT could be managed by allocating additional resources or providing more training. In all cases, however, information exchange could only be conducted in an authorised manner and consistent with a country's domestic privacy and data protection laws.

23. Countries are encouraged to ensure that the FIU is notified about detections of possible TBML/FT, either through a system whereby the FIU is notified about suspicious trade transactions or by making the information available to the FIU in some other way. In such cases, the FIU could be authorised to obtain from other competent authorities (including the trade authorities, customs agency and investigative authorities) and reporting entities (*e.g.* financial institutions) where appropriate, additional information needed to properly undertake its functions. The systematic receipt of electronic funds transfers by FIUs may have value in assisting in the identification of TBML/FT.

Data protection and privacy

24. It is a basic principle that the collection and exchange of trade data shall only be conducted in an authorised manner and consistent with a country's domestic privacy and data protection laws.

25. Consistent with this basic principle, countries are encouraged to clearly specify the circumstances under which trade data may be disseminated and the legal basis for doing so. This includes clearly elaborating any available exemptions to domestic privacy and data protection laws. For instance, in some cases, trade data may be released if certain conditions are placed on the use of the information (*e.g.* the information will be used only for the purpose of fulfilling the receiving agency's functions, or for the purpose of investigating money laundering or terrorist financing) or if the receiving agency gives an undertaking not to use the information or further disclose it except for authorised purposes.

26. Where domestic privacy and data protection laws inhibit the dissemination of data at the domestic level, countries are encouraged to assess the underlying reasons for a specific protection provisions, and balance it against the potential benefits from future use of the data. For instance, pilot programmes could be undertaken to study the possible effects of such dissemination (*e.g.* by concluding limited memoranda of understanding between competent authorities).

27. It is best practice in this area to collect and maintain trade data and other relevant information in a national electronic secure database which can only be accessed by the appropriate authorities for the purpose of discharging their official duties. Ideally, specialised analytical and data mining software could be available to facilitate the analysis of trade data. Countries are also encouraged to use software rules that are designed to redact sensitive or identifying information from trade data, so that it can be used for trend analysis or information exchanges with other authorities. Sanitising trade data in this way has proven to be an effective way of sharing trade data with foreign authorities, without violating domestic privacy and data protection laws.⁸

would have the most value and be most efficient. Not unlike an FIU, different countries could house their respective TTU in different government departments.

⁸ This practice is in use by TTUs to comply with partnering nations' domestic and privacy protection laws.

International co-operation

28. Another basic principle that guides the establishment of these best practices is that, in order to facilitate international co-operation in combating TBML/FT, countries could establish clear and effective gateways, subject to appropriate controls and safeguards and existing legal frameworks, to facilitate the prompt and effective exchange of trade data and other relevant information, on a case-by-case basis or as otherwise appropriate, among authorised counterparts.

29. In line with this basic principle, countries are encouraged to provide the widest possible range of mutual legal assistance in TBML/FT investigations and prosecutions. This includes being able to share trade data and relevant financial information with other countries through the framework of mutual legal assistance in a timely, constructive and effective manner. Countries could also be able to co-operate in joint TBML/FT investigations.

30. It is best practice in this area for countries to be able to share trade data directly with their foreign counterparts (*i.e.* administrative assistance). Clear and effective gateways, mechanisms or channels that will facilitate such information exchange could be established. For example, the TTUs of some countries share a single database which allows them to manage and match trade data. This mechanism is further enhanced by having foreign liaison officers working within the TTU. Another, more common mechanism is a memorandum of understanding. Regional or international information exchange platforms may also be used to facilitate the exchange of trade data (*e.g.* the Customs Information System in the European Union or the Egmont Group Secure Network of FIUs). Where the sharing of specific trade information with foreign counterparts is prohibited, countries are encouraged to share sanitised trade data. Countries may also wish to explore other data exchange models based on different levels of statistical aggregation.

Legitimate trading activities

31. It is a basic principle that the above measures could be implemented with a view to ensuring that legitimate trading activities are not unreasonably hindered or obstructed.

32. Consistent with this basic principle, countries are encouraged to keep the following considerations in mind when implementing measures to combat TBML/FT: competitive neutrality, competition and economic efficiencies, the desirability of ensuring that regulatory considerations are addressed in a way that does not impose unnecessary financial and administrative burdens on reporting entities, and the risk that commercially sensitive information could be misused (*i.e.* for purposes other than combating TBML/FT).

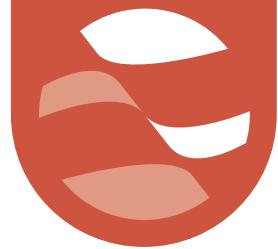
33. A review of the current practices of various jurisdictions shows that the following measures can be implemented without hindering legitimate trading activities:

- (a) Applying an intelligence, risk-based and target-based approach which makes consistent use of TBML/FT red flag indicators.
- (b) Using data capture mechanisms such as Electronic Data Interchange (EDI), which is a set of standards for standardising the structure of information to be electronically exchanged between authorities, from one computer system to another, without human intervention and subject to appropriate data protection safeguards.
- (c) Authorising traders that meet certain criteria to benefit from facilitations for customs controls or simplifications for customs rules (*e.g.* Member states of the European Union recognise Authorised Economic Operator (AEO) status which is granted to traders that meet the following criteria: an appropriate record of customs compliance, satisfactory management systems that

allow appropriate customs controls, adequate security and safety standards, and proven solvency).

- (d) Utilising the trade data that is gathered automatically from customs declaration forms thereby avoiding any extra burden for the traders who are involved in legitimate trade.
- (e) Conducting non-intrusive inspections of goods being imported and exported using scanners.
- (f) Having authorising domestic authorities (*e.g.* customs, FIU) share information either upon specific request or spontaneously.
- (g) Providing information to foreign authorities and placing conditions on the use of such information.
- (h) Establishing a Trade Transparency Unit to facilitate the sharing and analysis of import/export data. Because the system does not rely on real-time trade information to target data (the system uses historic data to identify anomalies that are indicative of TBML/FT), legitimate trading activities are not unreasonably hindered.

FATF



FATF REPORT

Professional Money Laundering

July 2018





The Financial Action Task Force (FATF) is an independent inter-governmental body that develops and promotes policies to protect the global financial system against money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction. The FATF Recommendations are recognised as the global anti-money laundering (AML) and counter-terrorist financing (CFT) standard.

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CFATF	Caribbean Financial Action Task Force
EAG	Eurasian Group
FIU	Financial Intelligence Unit
LEA	Law Enforcement Agency
MENAFATF	Middle East and North Africa Financial Action Task Force
ML	Money Laundering
MONEYVAL	Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism
MVTS	Money Value Transfer Service
PML	Professional Money Launderer
PMLO	Professional Money Laundering Organisation
PMLN	Professional Money Laundering Network
OCG	Organised Crime Group
STR	Suspicious Transaction Report
TCSP	Trust and Company Service Provider

EXECUTIVE SUMMARY

This is the first time the FATF is undertaking a project which concentrates on professional money launderers (PMLs) that specialise in enabling criminals to evade anti-money laundering and counter terrorist financing safeguards and sanctions in order to enjoy the profits from illegal activities. The report aims to describe the functions and characteristics that define a “professional” money launderer, namely those individuals, organisations and networks that are involved in third-party laundering for a fee or commission. This report is therefore focused on money laundering *threats* as opposed to *vulnerabilities*, and it addresses criminal actors, including organised crime groups that specialise in the provision of professional money laundering services and complicit actors who are knowingly involved, or are deliberately negligent, in the laundering process. While PMLs may act in a professional capacity (e.g. lawyer, accountant) and serve some legitimate clients, the report aims to identify those actors who serve criminal clients whether on a full-time or part-time basis.

PMLs provide services to criminals and organised crime groups by laundering the proceeds of their illegal activities. As the main purpose of PMLs is to facilitate money laundering, they are rarely involved in the proceeds-generating illegal activities. Instead, they provide expertise to disguise the nature, source, location, ownership, control, origin and/or destination of funds to avoid detection. PMLs generally do not differentiate between drug dealers, fraudsters, human traffickers or any other criminal with a need to move or conceal ill-gotten gains. These are all potential PML clients. PMLs operate under a number of business models and may be individuals; criminal organisations with a clear structure and hierarchy; or networks of loosely affiliated members. Providing services to criminals and organised crime groups, PMLs are criminal actors, profiting from these money laundering activities.

PMLs may provide the entire infrastructure for complex money laundering schemes (e.g. a ‘full service’) or construct a unique scheme tailored to the specific needs of a client that wishes to launder the proceeds of crime. These PMLs provide a menu of generally applicable services, with the result that the same laundering techniques (and potentially the same financial channels and routes) may be used for the benefit of multiple organised crime groups. As such, professional money laundering networks may act transnationally in order to exploit vulnerabilities in countries and particular businesses, financial institutions, or designated non-financial businesses or professions. PMLs, themselves, pose a threat to the financial system, as they facilitate money laundering and criminality more broadly, profiting from these illegal activities. The results of FATF’s fourth round of mutual evaluations reveal that many countries are not sufficiently investigating and prosecuting a range of money laundering activity, including third-party or complex money laundering. Many countries continue to limit their investigations to *self-launderers*: criminals who

launder the proceeds of drug trafficking, fraud, tax evasion, human trafficking or other criminality. While this may address in-house or self-laundering, it does not impact on those specialised in providing criminals with money laundering services. PMLs, professional money laundering organisations and professional money laundering networks can survive law enforcement interdiction against any of its criminal or organised crime group clients, while still standing ready to support the next criminal clientele. Effective dismantling of PMLs requires focused intelligence collection and investigation of the laundering activities, rather than the associated predicate offences of the groups using the services of the PMLs. The dismantling of PMLs, can impact the operations of their criminal clients, and can be an effective intervention strategy against numerous criminal targets.

This report identifies the specialist skill sets that PMLs offer their clients in order to hide or move their proceeds, and provides a detailed explanation of the roles performed by PMLs to enable authorities to identify and understand how they operate. This can include locating investments or purchasing assets; establishing companies or legal arrangements; acting as nominees; recruiting and managing networks of cash couriers or money mules; providing account management services; and creating and registering financial accounts. This report also provides recent examples of financial enterprises that have been acquired by criminal enterprises or co-opted to facilitate ML. The analysis shows that PMLs use the whole spectrum of money laundering tools and techniques; however, the report specifically focuses on some of the common mechanisms used to launder funds, such as trade-based money laundering, account settlement mechanism and underground banking.

The project team also examined potential links between PMLs and terrorist financing, however, there was insufficient material provided to warrant a separate section on this topic. The *Khanani* provides the clearest example of a professional money laundering organisation, providing services to a UN designated terrorist organisation. One delegation also noted potential links between a loosely affiliated professional money laundering network and a domestically designated terrorist organisation. However, the vast majority of cases submitted relate to money laundering, rather than terrorist financing.

The non-public version report also explores unique investigative tools and techniques that have proved successful in detecting and disrupting PMLs to guide countries that are seeking to address this issue. The report includes a number of practical recommendations that are designed to enhance the identification and investigation of PML; identify strategies to disrupt and dismantle these entities; and identify steps to prevent PML. Combatting these adaptable PMLs requires concerted law enforcement and supervisory action at the national level, appropriate regulation and effective international co-operation and information exchange. This report emphasises the need for a more co-ordinated operational focus on this issue at a national level, and the importance of effective information sharing between authorities at an international level. The report also identifies the information and intelligence required to successfully identify, map, and investigate PMLs, with the objective of disrupting and dismantling those involved in PML and their criminal clientele.

This report intends to assist authorities at jurisdictional level target PMLs, as well as the structures that they utilise to launder funds, to disrupt and dismantle the groups that are involved in proceeds-generating illicit activity so that crime does not pay.

PROFESSIONAL MONEY LAUNDERING

SECTION I: INTRODUCTION

Purpose, Scope and Objectives

The FATF has conducted a number of studies on money laundering (ML) risks. The resulting reports have usually examined ML threats associated with particular proceeds generating offences or vulnerabilities associated with entities covered under the FATF Standards. This report assesses the threats associated with professional money launderers (PMLs), and does not assess ML vulnerabilities that are covered in other FATF reports. Specifically, the report aims to:

- raise awareness of the unique characteristics of professional money laundering (PML);
- understand the role and functions of those involved in PML;
- understand the business models and specific functions performed by PMLs;
- understand how organised crime groups (OCGs) and terrorists use the services of PMLs to move funds;
- identify relevant ML typologies and schemes;
- develop risk indicators for competent authorities and the private sector that are unique for PMLs; and
- develop practical recommendations for the detection, investigation, prosecution and prevention of PML.

Structure of the Report

Sections II and **III** provide the framework for the report, including key characteristics of PML; differences between individuals, organisations and networks involved in PML; and an explanation of the roles performed by those involved. The aim of these sections is to ensure a consistent dialogue on this topic as countries deepen their understanding of this issue.

Sections IV, V and **VI** highlight the main types of dedicated ML networks, including the types of complicit and criminal financial services providers and other professional intermediaries generally involved in PML, and common mechanisms used to launder funds. The types of information within these sections should not be considered finite, as PMLs utilise all ML tools and techniques available to them and continue to adapt their methods to take advantage of regulatory and enforcement gaps.

Methodology

This project was co-led by the Russian Federation and the United States and incorporates input from a variety of delegations across the FATF's Global Network. The project team received submissions from Argentina, Australia, Belgium, Canada, China, Germany, Israel, Italy, Malaysia, the Netherlands, the Russian Federation, Singapore, Spain, the United Kingdom, the United States, EAG Members (Belarus, Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan), MONEYVAL (Ukraine), MENAFATF (Lebanon), CFATF (Belize) and EUROPOL.

Authorities provided detailed information, including from risk assessments and case examples of various schemes arranged by PMLs, strategic analysis outcomes, information on internal organisational and behavioural aspects of PMLNs and investigative techniques. The report includes select country examples to provide the necessary context.

Input was also gathered at the Middle East and Africa Joint Typologies and Capacity Building Workshop in Rabat, Morocco, from 22-25 January 2018, and input and feedback gathered at the FATF Joint Experts Meeting held in Busan, Republic of Korea, from 1-4 May 2018. The findings of this report also rely on feedback from financial intelligence units (FIUs) and law enforcement agencies (LEAs), based on their experiences in investigating PMLs.

There has been sparse research on this subject. However, the project team did take into consideration previous and ongoing work by the FATF on operational issues, including the *2012 FATF Guidance on Financial Investigations*, *2013 FATF Report on ML and TF Vulnerabilities of Legal Professionals* and the *2018 Joint FATF/Egmont Report on the Vulnerabilities Linked to the Concealment of Beneficial Ownership*.

SECTION II: CHARACTERISTICS OF PROFESSIONAL MONEY LAUNDERING

This section of the report outlines the key characteristics, which make PML unique, and helps to frame the scope of this report. **Section III** then provides a list of specialised services, which include specific roles or functions performed by various individuals. The report has attempted to avoid the use of formal titles (e.g. controller, enabler and facilitator), as multiple and inconsistent terminology is used globally, which leads to confusion when describing these functions. **Section III** provides a business model demonstrating how PMLs generally conduct financial schemes.

Key Characteristics

PML is a subset of third-party ML. The FATF defines third-party ML as the laundering of proceeds by a person who was not involved in the commission of the predicate offence¹. The main characteristic that makes PML unique is the provision of ML services in exchange for a commission, fee or other type of profit. While the specialisation in providing ML services is a key feature of PMLs, this does not mean that PMLs are not also involved in other activities (including legal businesses).

¹ FATF Methodology 2013, footnote to Immediate Outcome 7.

Similarly, this does not mean that they exclusively only launder illicit proceeds. PMLs also use specialised knowledge and expertise to exploit legal loopholes; find opportunities for criminals; and help criminals retain and legitimise the proceeds of crime.

Given that PMLs are third-party launderers, they are often not familiar with the predicate offence (e.g. narcotics or human trafficking) and are generally not concerned with the origins of the money that is moved. Nonetheless, PMLs are aware that the money that they move is not legitimate. The PML is concerned primarily with the destination of the money and the process by which it is moved. They are used by clients in order to create distance between those perpetrating the crimes and the illicit proceeds that they generate as profit, or because the criminal clients do not have the knowledge required to reliably launder the money without law enforcement detection.

Ultimately, PMLs are criminals, who often operate on a large scale and conduct schemes that are transnational in nature. The term “PMLs” is not intended to include unwitting or passive intermediaries who are exploited to facilitate an ML scheme. Other features of PMLs are that they sometimes operate on a large scale and often conduct schemes that are transnational in nature.

Commissions / Fees

A number of different and overlapping factors affect the fee paid to PMLs or the commission they receive for their services. The fee will often depend on the complexity of the scheme, methods used and knowledge of the predicate offence. The rate may change based on the level of risk that PMLs assume. For example, commission rates are often influenced by the countries or regions involved in the scheme, as well as other factors such as:

- the reputation of the individual PML;
- the total amount of funds laundered;
- the denomination (i.e. value) of the banknotes (in cases involving cash);
- the amount of time requested by a client to move or conceal funds (for example, if the laundering needs to be done in a shorter time period, the commission will be higher); and
- the imposition of new regulation(s) or law enforcement activities.

To obtain commission for their services, PMLs may (i) take commission in cash in advance, (ii) transfer a portion of money laundered to their own accounts or (iii) have the commission integrated into the business transaction.

Advertising / Marketing

Advertising and marketing of services can occur in numerous ways. Often, this involves the PMLs actively marketing their services by ‘word-of-mouth’ (through an informal criminal network). Criminal links and trust developed through previous criminal engagement also strengthens bonds and can encourage further co-operation. Authorities have also identified the use of posted advertisements for PML services on the Dark Web.

Record Keeping (Shadow Accountancy)

Law enforcement has reported that PMLs often keep a shadow accounting system that contains detailed records with code names. These unique accounting systems may use detailed spreadsheets that track clients (using code names); funds laundered; the origin and destination of funds moved; relevant dates; and commissions received. PMLs may either store their records electronically (e.g. a password-protected Excel spreadsheet) or use paper records. These records represent an invaluable resource for investigators.

Individuals, Organisations and Networks

PMLs can belong to one of three categories:



1. An **individual PML**, who possesses specialised skills or expertise in placing, moving and laundering funds. They specialise in the provision of ML services, which can also be performed while acting in a legitimate, professional occupation. These services can include, but are not limited to, the following: accounting services, financial or legal advice, and the formation of companies and legal arrangements (see *specialised services*, below). Individual PMLs often spread their risks across diverse products, and carry out business activities with several financial specialists and brokers (see examples below).



2. A **Professional money laundering organisation (PMLO)**, which consists of two or more individuals acting as an autonomous, structured group that specialises in providing services or advice to launder money for criminals or other OCGs. Laundering funds may be the core activity of the organisation, but not necessarily the only activity. Most PMLOs have a strict

hierarchical structure, with each member acting as a specialised professional that is responsible for particular elements of the ML cycle (see **Section III**).



3. A **Professional money laundering network (PMLN)**, which is a collection of associates or contacts working together to facilitate PML schemes and/or subcontract their services for specific tasks. These networks usually operate globally, and can include two or more PMLOs that work together. They may also operate as informal networks of individuals that provide the criminal client with a range of ML services. These interpersonal relationships are not always organised, and are often flexible in nature.

These extensive PML networks are able to satisfy the demands of the client by opening foreign bank accounts, establishing or buying foreign companies and using the existing infrastructure that is controlled by other PMLs. Collaboration between different PMLs also diversifies the channels through which illicit proceeds may pass, thereby reducing the risk of detection and seizure.

PMLOs work with OCGs of all nationalities, on a global basis or in a specific region, often acting as a global enterprise. The same PML can be used to facilitate ML operations on behalf of several OCGs or criminal affiliates. They are highly skilled and operate in diverse settings, adept at avoiding the attention of law enforcement. One relevant case has been identified demonstrating that the same money launderers provided services to both OCGs and terrorist organisations (see Box 1, below).

Box 1. Khanani Money Laundering Organisation

The Altaf Khanani Money Laundering Organisation (MLO) laundered illicit proceeds for other OCGs, drug trafficking organisations and designated terrorist groups throughout the world. The Khanani MLO was an OCG composed of individuals and entities operating under the supervision of Pakistani national, Altaf Khanani, whom the US Drug Enforcement Administration (DEA) arrested in 2015. The Khanani MLO facilitated illicit money movements between Pakistan, the United Arab Emirates (UAE), the United States, the United Kingdom, Canada, Australia and other countries. It was responsible for laundering billions of dollars in criminal proceeds annually.

The Khanani MLO offered ML services to a diverse clientele, including Chinese, Colombian and Mexican OCGs, as well as individuals associated with a US

domestically designated terrorist organisation. The Khanani MLO has also laundered funds for other designated terrorist organisations. Specifically, Altaf Khanani, the head of the Khanani MLO and Al Zarooni Exchange, has been involved in the movement of funds for the Taliban, and Altaf Khanani is known to have had relationships with Lashkar-e-Tayyiba, Dawood Ibrahim, al-Qa'ida and Jaish-e-Mohammed. Furthermore, Khanani was responsible for depositing drug proceeds via bank wires from a foreign business account in an effort to conceal and disguise the nature, source, ownership and control of the funds. Khanani conducted transactions, which involved multiple wire transfers from a number of general trading companies. Khanani's commission to launder funds was 3% of the total value of funds laundered.

The Khanani MLO itself was designated by OFAC in 2015 as a "transnational criminal organisation," pursuant to Executive Order 13581. On the same day, OFAC designated the exchange house utilised by the Khanani MLO, Al Zarooni Exchange. In 2016, the US Treasury's Office of Foreign Assets Control (OFAC) designated four individuals and nine entities associated with the Khanani MLO. On October 26, 2016 Altaf Khanani pleaded guilty to federal ML charges. Approximately USD 46 000 in criminal proceeds was also confiscated from Khanani. In 2017, Altaf Khanani was sentenced to 68 months in prison for conspiracy to commit ML.

Extensive law enforcement co-ordination took place between multiple law enforcement agencies from Australia, Canada and the US who all held a different piece of the puzzle. The designation of Al Zarooni Exchange complements an action taken by the Central Bank of the UAE, with assistance from the AML Unit at Dubai Police General Headquarters, which closely coordinated with the DEA prior to the action taken.

Note: 1. Transnational Criminal Organisation (TCO) is a specific technical term used in the US designation process and is synonymous with organised crime group (OCG), the latter of which is used throughout this report.

Source: United States, Australia, Canada, UAE

OCGs use both outsiders and OCG members to perform ML services on behalf of the group. In cases where there is an in-house component of an OCG that is responsible for ML, these members may receive a portion of the proceeds of the group, rather than a fee or commission. The extent to which PMLs get involved in ML schemes depends on the needs of the criminal group, the complexity of the laundering operation that they wish to execute, as well as the risks and costs associated with such involvement.

When OCGs employ the services of PMLs, they often choose PMLs who are acquainted with persons close to, or within, the OCG network. They can be family members or close contacts. They may also be professionals that previously acted in a legitimate capacity, and who now act as:

- accountants, lawyers, notaries and/or other service providers;
- Trust and Company Service Providers (TCSPs);
- bankers;
- MVTS providers;

- brokers;
- fiscal specialists or tax advisors;
- dealers in precious metals or stones;
- bank owners or insiders;
- payment processor owners or insiders; and
- electronic and cryptocurrency exchanger owners or insiders.

OCGs also make use of external experts on a permanent or ad hoc basis. These experts knowingly operate as entrepreneurs and often have no criminal record, which can aid in avoiding detection. These complicit professionals are increasingly present on the criminal landscape, coming together as service providers to support specific criminal schemes or OCGs (see **Section VI**). PMLs can also provide services to several OCGs or criminal affiliates simultaneously, and are both highly skilled at operating in diverse settings and adept at avoiding the attention of law enforcement.

Compartmentalised relationships also exist, particularly within PMLNs, whereby there may be no direct contact between OCGs and the lead actors responsible for laundering the funds. In these instances, transactions are facilitated via several layers of individuals who collect the money (see **Section III**) before funds are handed over to PMLs for laundering.

SECTION III: SPECIALISED SERVICES AND BUSINESS MODELS

PMLs can be involved in one, or all, stages of the ML cycle (i.e. placement, layering and integration), and can provide specialised services to either manage, collect or move funds. PMLOs act in a more sophisticated manner and may provide the entire infrastructure for complex ML schemes or construct a unique scheme, tailored to the specific needs of a client.

There are a number of specialised services that PMLs may provide. These include, but are not limited to:

- consulting and advising;
- registering and maintaining companies or other legal entities;
- serving as nominees for companies and accounts;
- providing false documentation;
- comingling legal and illegal proceeds;
- placing and moving illicit cash;
- purchasing assets;
- obtaining financing;
- identifying investment opportunities;
- indirectly purchasing and holding assets;
- orchestrating lawsuits; and
- recruiting and managing money mules.

Roles and Functions

This section identifies numerous roles and functions that are necessary to the operation of PMLs. These specific functions, outlined below, should not be considered an exhaustive list. Depending on the type of PML, an individual may perform a unique function or perform several roles simultaneously. Understanding these roles is important in order to identify all of the relevant players and ensure that all relevant aspects of PMLs are detected, disrupted and ultimately dismantled.

- **Leading and controlling:** There may be individuals who provide the overall leadership and direction of the group, and who are in charge of strategic planning and decision making. Control over ML activities of the group is normally exercised by a leader, but may also be exercised by other individuals who are responsible for dealing with the funds from the time they are collected from clients until delivery (e.g. arranging the collection of cash and organising the delivery of cash at a chosen international destination). These individuals are also responsible for determining the commission charged and paying salaries to other members of the PMLO/PMLN for their services.
- **Introducing and promoting:** There are often specific individuals who are responsible for bringing clients to the PMLs and managing communications with the criminal clients. This includes managers who are responsible for establishing and maintaining contact with other PMLOs or individual PMLs that operate locally or abroad. Through the use of these contacts, the PMLO gains access to infrastructure already established by other PMLs.
- **Maintaining infrastructure:** These individuals are responsible for the establishment of a range of PML infrastructure or tools. This could include setting up companies, opening bank accounts and acquiring credit cards. These actors may also manage a network of registrars who find and recruit nominees (e.g. front men) to register shell companies on behalf of the client, receive online banking logins and passwords, and buy SIM-cards for mobile communication.

One example of managing infrastructure is the role of a *money mule herder*, who is responsible for recruiting and managing money mules (e.g. via job ads and via a personal introduction), including the payment of salaries to mules. This salary can be paid either as a fee for their money transfer services or as a one-time payment for their services (see **Section IV** for a wider description of money mule networks and the roles within these specific networks).

- **Managing documents:** These individuals are responsible for the creation of documentation needed to facilitate the laundering process. In some cases, these individuals are responsible for either producing or acquiring fraudulent documentation, including fake identification, bank statements and annual account statements, invoices for goods or services, consultancy arrangements, promissory notes and loans, false resumes and reference letters.
- **Managing transportation:** These individuals are responsible for receiving and forwarding goods either internationally or domestically, providing

customs documentation and liaising with transport or customs agents. This role is particularly relevant to TBML schemes.

- **Investing or purchasing assets:** Where needed, real estate or other assets, such as precious gems, art or luxury goods and vehicles, are used to store value for later sale. Criminals seek assistance in purchasing real estate overseas, and PMLs have been known to use elaborate schemes involving layers of shell companies to facilitate this.
- **Collecting:** These individuals are responsible for collecting illicit funds, as well as the initial placement stage of the laundering process. Given that they are at the front end of the process, they are most likely to be identified by law enforcement. However, they often leave little paper trail and are able to successfully layer illicit proceeds by depositing co-mingling funds using cash-intensive businesses. These individuals are aware of their role in laundering criminal proceedings (compared to some money mules, who may be unwitting participants in a PML scheme).
- **Transmitting:** These specific individuals are responsible for moving funds from one location to another in the PML scheme, irrespective of which mechanism is used to move funds. They receive and process money using either the traditional banking system or MVTs providers, and are also often responsible for performing cash withdrawals and subsequent currency exchange transactions.

General Business Model of Professional Money Laundering Networks

Figure 1. Three stages of professional money laundering



In general, financial schemes executed by PMLs consist of three stages:

Stage 1: Criminal proceeds are transferred to, or collected by, PMLs

In the first stage, funds are transferred, physically or electronically, to PMLs or to entities operating on their behalf. The precise manner of introduction of the funds into the ML scheme varies depending on the types of predicate offence(s) and the form in which criminal proceeds were generated (e.g. cash, bank funds, virtual currency, etc.).

Cash: When illicit proceeds are introduced as currency, they are usually passed over to a cash collector. This collector may ultimately deposit the cash into bank accounts. The collector introduces the cash into the financial system through cash-intensive businesses, MVTS providers or casinos, or physically transports the cash to another region or country.

Bank accounts: Some types of criminal activity generate illicit proceeds held in bank accounts, such as fraud, embezzlement and tax crimes. Unlike drug proceeds, proceeds of these crimes rarely start out as cash but may end up as cash after laundering. Clients usually establish legal entities under whose names bank accounts may be opened for the purposes of laundering funds. These accounts are used to transfer money to a first layer of companies that are controlled by the PMLs.

Virtual Currency: Criminals who obtain proceeds in a form of virtual currency (e.g. owners of online illicit stores, including Dark Web marketplaces) must have e-wallets or an address on a distributed ledger platform, which can be accessed by the PMLs.

Stage 2: Layering stage executed by individuals and/or networks

In the layering stage, the majority of PMLs use account settlement mechanisms to make it more difficult to trace the funds. A combination of different ML techniques may be used as part of one scheme. The layering stage is managed by individuals responsible for the co-ordination of financial transactions.

Cash: ML mechanisms for the layering of illicit proceeds earned in cash commonly include: TBML and fictitious trade, account settlements and underground banking.

Bank Accounts: Funds that were transferred to bank accounts managed by PMLs are, in most cases, moved through complex layering schemes or proxy structures. Proxy structures consist of a complex chain of shell company accounts, established both domestically and abroad. The funds from different clients are mixed within the same accounts, which makes the tracing of funds coming from a particular client more difficult.

Virtual Currency: Criminals engaged in cybercrime or computer-based fraud, as well as in the sale of illicit goods via online stores, often use the services of money mule networks (see Section IV). The illicit proceeds earned from these crimes are often held in the form of virtual currency, and are stored in e-wallets or virtual currency wallets that go through a complex chain of transfers.

Stage 3. Laundered funds are handed back over to clients for investment or asset acquisition

In the last stage, funds are transferred to accounts controlled by the clients of the PML, their close associates or third parties acting on their behalf or on behalf of affiliated legal entities. The PML may invest the illicit proceeds on behalf of these clients in real estate, luxury goods, and businesses abroad (or, in some cases, in countries where the funds originated from). The funds can also be spent on goods deliveries to a country where the funds originated or to a third country.

SECTION IV: TYPES OF DEDICATED ML ORGANISATIONS AND NETWORKS

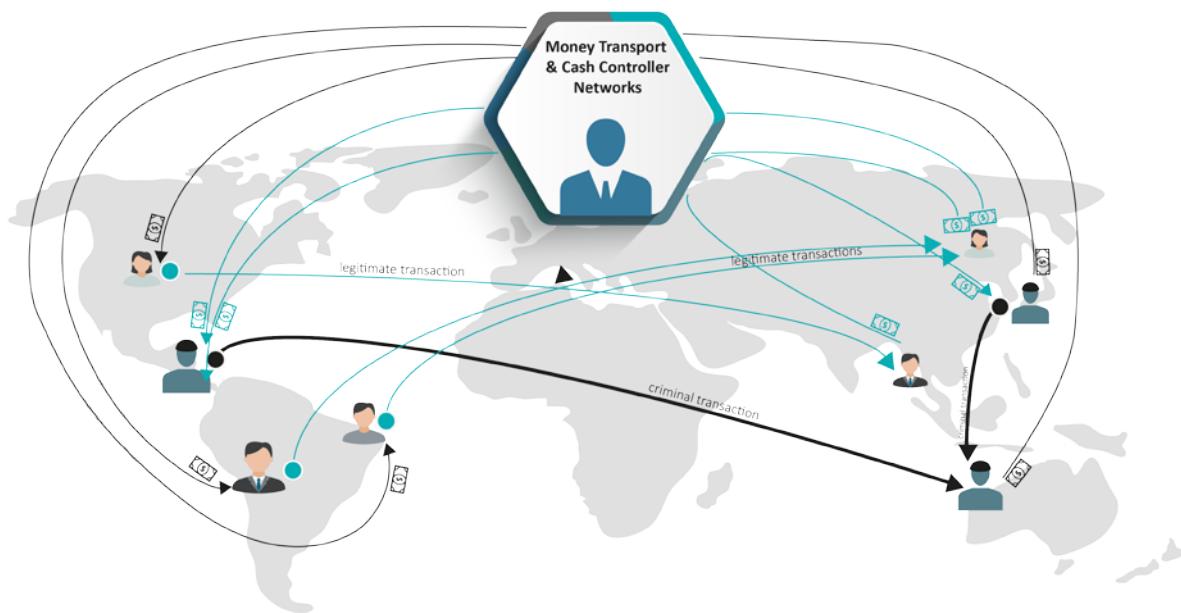
As mentioned in the previous sections, PMLs may move funds through dedicated networks, utilising multiple mechanisms to move funds. These networks, often used during the placement and layering stages in the laundering cycle, are able to quickly adapt and adjust to shifting environmental factors (such as new regulation) and law enforcement activities. PMLs may also provide detailed guidance to assist with the entire ML scheme and often sell “packages” that contain the instruments and services required to facilitate an ML scheme. This section describes the key types of dedicated ML organisations and networks identified through an analysis of case studies: (i) money transport and cash controller networks; (ii) money mule networks; (iii) digital money and virtual currency networks; and (iv) proxy networks.

Money Transport and Cash Controller Networks

Criminals and OCGs that generate significant amounts of cash often use the services of cash controller networks that are capable of transferring vast sums of cash on their behalf. These international controller networks have the capacity to receive, hand over and transfer criminal proceeds, while charging a processing fee. Generally the structure of these networks consists of individuals who *control, co-ordinate, collect and transmit illicit funds*,² and who operate together to negotiate deals with the OCG.

Cash controller networks often orchestrate the laundering of the proceeds of crime for multiple OCGs located worldwide through an account settlement system, whereby illicit proceeds are substituted for legitimate funds. The ML technique employed sometimes involves the transfer of criminal funds through the accounts of unwitting customers who receive funds or payments from abroad. In this scheme, legal funds, which are to be transferred into the bank account of an unwitting third party, are substituted by the launderer with the illicit proceeds of the OCG. The launderer deposits the money in amounts under the reporting threshold to avoid detection.

² See roles and functions defined in Section III

Figure 2. Money Transport and Cash Controller Network

Amounts deposited do not immediately match the overall sums of illicit proceeds. However, in the long term, the value of illicit proceeds collected against the value of deposits tends to be equivalent. Where this is not the case, the PML may resort to other trade-based techniques, such as fake or over invoicing, in order to legitimise the movement of funds between two or more jurisdictions, to balance the system. This technique allows the PML to oversee payments made in another country, without the risk of being detected by holding bank accounts in their own name(s).

If an international cash controller network works with criminals and OCGs operating in different countries, it may easily avoid conducting cross-border transfers of funds, with the support of an account settlement mechanism (see Section V). The chart, below, illustrates the operations of an international cash controller network in four different situations.

Box 2. Cash Controller Network and Account Settlement Scheme

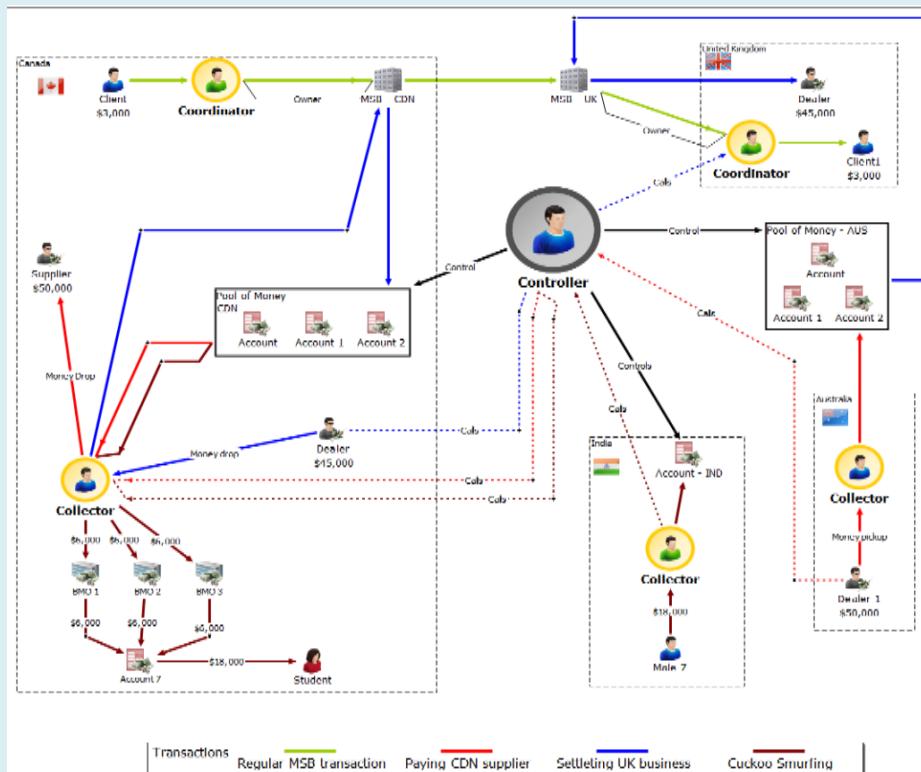
USD 3 000 GREEN: Basic transaction. The Canadian client wants to send money to another client in the UK. It is conducted through the MVTS provider's intermediary.

USD 50 000 RED: An Australian dealer wants to pay its Canadian supplier. The dealer contacts the controller to arrange the transfer. The controller instructs the collector to pick up money. The money is now part of a pool of money in that country under the control of the controller. The controller instructs his Canadian collector to take money from his Canadian pool of money to conduct a money-drop.

USD 45 000 BLUE: The Canadian dealer wants to settle an account in the UK.

The dealer contacts the controller and arranges a pick-up. The collector picks up the money and is instructed to deliver it to a complicit transmitter to place the money into bank accounts (structuring). This increases the Canadian pool of money. The controller then takes money from the UK pool and instructs the UK collector to deliver the money.

USD 18 000 MAROON: A father in India wants to send money to his daughter in Canada. The funds are sent through a hawala network¹. The collector secures the contract for the controller. The controller then directs his Canadian collector to disperse deposits into the individual's bank account. He visits three different branches to structure the deposits into the account.



Note: 1. For further information about hawala, see FATF, *Role of Hawala and Other Similar Service Providers in ML and TF*, October 2013

Source: Australia

The laundering of criminal proceeds generated in cash may include the physical transportation of bulk cash. Recent cases show that services to transport cash are also being outsourced to specialised cash transportation networks that are responsible for collecting cash, transporting it to pre-determined locations and facilitating its placement in the financial system. One of the recent examples of efforts taken to combat cash transportation networks that provide services to drug trafficking organisations operating in Europe is EUROPOL's Operation Kandil. The network was responsible for collecting the proceeds of heroin sales throughout Europe (Spain, the Netherlands, Italy and the UK) and transporting this cash to Germany, where it was placed into the financial system through the purchase of second-hand cars, spare parts and equipment.

Box 3. Operation Kandil – Use of Cash Courier Network

In 2016, authorities from Germany, supported by EUROPOL experts, took action against an Iraqi OCG (based in Germany) that was suspected of performing ML services for international heroin traffickers. The operation was preceded by extensive and complex criminal investigations, supported by EUROPOL, which coordinated the law enforcement authorities in France, Spain, Germany and the Netherlands, mirrored by EUROJUST's co-ordination of judicial authorities.

This criminal syndicate, composed mainly of Iraqi nationals, was responsible for collecting the proceeds of heroin sales throughout Europe (Spain, the Netherlands, Italy and the UK) and laundering these funds to the Middle East through Germany, with an estimated total amount of EUR 5 million already laundered.

The criminals' modus operandi involved the use of cash couriers traveling by car to pick up dirty cash all over Europe. This was followed by the use of TBML techniques to transmit the value to the Middle East, primarily through the shipment of second-hand cars; heavy machinery and construction equipment purchased in Germany and exported to Iraq, where the goods were ultimately resold in exchange for clean cash.

The OCG was then able to make use of MVTS services and unregulated financial channels (the hawala system) to integrate and further transfer funds into the regulated financial system. This left virtually no paper trail for law enforcement.

Professional service providers, such as solicitors, accountants and company formation agents, provided the skills and knowledge of financial procedures necessary to operate this scheme. Although, few groups are known to provide these services, they launder large amounts of money, and have a considerable impact on the ability of other OCGs to disguise and invest criminal proceeds. These syndicates are a significant obstacle to tracing criminal assets.

Source: EUROPOL (Germany)

Money Mule Networks

One of the significant elements of many PML schemes is the use of money mules. Money mules are people who are used to transfer value, either by laundering stolen money or physically transporting goods or other merchandise. Money mules may be willing participants and are often recruited by criminals via job advertisements for 'transaction managers' or through online social media interactions. Money mule recruiters are also known as mule 'herders.' Money mules may be knowingly complicit in the laundering of funds or work unwittingly, or negligently, on behalf of a PMLN or OCG. Cyber criminals tailor their recruitment techniques based on the prospective mule's motivations. For example, these criminals will also offer off-the-record cash payments and free travel to incentivise and recruit "witting" mules motivated by easy money and free travel.

Box 4. Use Of Money Mules to Launder Criminal Proceeds

Person A was recruited by a Nigerian syndicate to receive money in her bank accounts. She was promised commissions of up to SGD 5 000 (EUR 3 160) for each transaction. Person A received criminal proceeds from fraud committed in the US and the Bahamas into her bank accounts. Most of the funds were transferred out or withdrawn within a few days of receipt, upon instructions of the Nigerian-based OCG.

Not only did Person A serve as a receptacle for illicit proceeds, she also recruited two other money mules. The control of the mules' bank accounts allowed her to obscure the locations of the illicit proceeds through layering, and enabled her to evade detection as the funds were spread out over multiple accounts. Through this network, Person A and her money mule network received a total of 12 fraudulent wire transfers, amounting to SGD 5 million (EUR 3 16 million) from overseas victims into their bank accounts in Singapore, within a period of six weeks.

Person A was convicted and sentenced to 72 months' imprisonment for receiving stolen property and ML offences.

Source: Singapore

PMLs frequently recruit money mules from diaspora networks and ethnic communities. A sizeable amount of money mule transactions are linked to online illicit stores and cybercrime, such as phishing, malware attacks, credit card fraud, business e-mail compromise and various types of other scams (including romance, lottery and employment scams).

Some money mules are unaware that they are being used to facilitate criminal activity. Unwitting mules are used by OCGs to cash counterfeit checks and money orders or purchase merchandise using stolen credit card numbers or other personal identification information. In some cases, the mules may suspect that the source of the money that they are moving is not legitimate. Such wilfully blind money mules often use income earned to supplement their regular income because they are facing financial difficulties or are motivated by greed.

In the past, money mules have been viewed as low-level offenders, transferring small amounts of cash. However, organised, sophisticated money mule schemes have evolved as a PML mechanism. These money mule networks are controlled by a hierarchical structure, and are well-resourced and highly effective in laundering funds. Money mule networks are usually associated with OCGs that operate cross-border, particularly those involved in cybercrime and the sale of illicit goods through online stores. Typically, these schemes involve criminals that create apparently legitimate businesses, hiring unsuspecting individuals whose jobs involve setting up bank accounts to receive and pass along supposedly legitimate payments. In reality, these unsuspecting individuals act as money mules, processing the criminals' illicit proceeds and wiring them to other criminals.

Money mule networks have been used to open numerous individual bank accounts locally as well as in global financial centres to facilitate the movement of criminal

proceeds. Bank accounts, opened by the mules, serve as the initial layering stage in the laundering process. This indicates that criminals still find the combination of money mule accounts, cash withdrawals and wire transfers to be an effective way to layer proceeds.

Box 5. Avalanche Network

Avalanche is an example of a criminal infrastructure dedicated to facilitating privacy invasions and financial crimes on a global scale. Avalanche was a hosting platform composed of a worldwide network of servers that was controlled via a highly organised central system. This cyber network hosted more than two dozen of the world's most pernicious types of malware and several large scale ML campaigns.

The Avalanche network, in operation since at least 2010, was estimated to serve clients operating as many as 500 000 infected computers worldwide on a daily basis. The monetary losses associated with malware attacks conducted over the Avalanche network are estimated to be in the hundreds of millions of USD worldwide.

The Avalanche network offered cybercriminals a secure infrastructure, designed to thwart detection by law enforcement and cyber security experts. Online banking passwords and other sensitive information stolen from victims' malware-infected computers was redirected through the intricate network of Avalanche servers and ultimately to back-end servers controlled by the cybercriminals. Access to the Avalanche network was offered to the cybercriminals through postings on exclusive, dark web criminal forums.

The types of malware and money mule schemes operating over the Avalanche network varied. Ransomware such as Nymain, for example, encrypted victims' computer files until the victim paid a ransom (typically in a form of cryptocurrency) to the cybercriminal. Other malware, such as GozNym, was designed to steal sensitive online banking credentials from victims in order to use those credentials to initiate fraudulent wire transfers from the victims' bank accounts.

The ML schemes operating over Avalanche involved highly organised individuals, who controlled server networks and money mules, which were a crucial part of the criminal network. In some cases, the leaders would use a network of individuals to open bank accounts in major global financial hubs to facilitate wire transfers. The mules were often sponsored by the leader of a particular, country-based network and brought to the US, or, they were unwitting individuals who were recruited. The mules purchased goods with stolen funds, enabling cybercriminals to launder the money they acquired through malware attacks or other illegal means.

Source: United States

Digital Money and Virtual Currency Networks

PMLs also arrange schemes that allow criminals to cash out proceeds generated in virtual currency via online illicit markets (e.g. Dark Web drug-trafficking marketplaces). In many cases, payments for illicit drugs purchased online are transferred to e-wallets held in fiat currency or in virtual currency (e.g. Bitcoin). Afterwards, virtual currency is transferred through a complex chain of e-wallets, which may include the use of mixers and tumblers to further enhance the anonymity of the virtual currency transactions. Funds are then sent back to the e-wallet of the OCG, and subsequently transferred to bank cards and withdrawn in cash.

Financial instruments are issued under the names of money mules (usually students who obtain a bank card and then sell the bank card to criminals for a fee, knowing nothing about its subsequent usage and associated criminal activities). Money mules employed by the PML conduct ATM withdrawals in a coordinated manner, and then give the money to members of the client OCGs.

There are cases when the same financial scheme and the network of individuals worked for the benefit of multiple OCGs operating on the Dark Web. These persons then re-distributed funds to the respective OCGs.

Box 6. Laundering Proceeds from Dark Web Drug Stores

The Russian Ministry of Internal Affairs and FIU conducted an investigation into OCGs that sold drugs via the Dark Web. Customers could choose two ways to pay and transfer funds for their order either by an indicated e-wallet, held in fiat currency, or to a Bitcoin address. The majority of clients preferred using e-wallets held in fiat currency, instead of Bitcoins.

The financial scheme for the drug stores was arranged and managed by a financier and his network. The ML network was responsible solely for moving funds and had no links to drug trafficking. Numerous e-wallets and debit cards were registered in the names of front men. This usually involved students who issued e-wallets and credit cards, and then sold them to members of the ML network, unaware of the criminal purpose of their further usage. Some e-wallets were used at the placement stage of the laundering process and had a limit of USD 300 000, while other e-wallets had a higher limit.

To simplify the ML process, the network's IT specialists developed a 'transit-panel' that had a user-friendly interface and was accessible via the TOR browser. The transit panel automatically switched between e-wallets that were used for drug payments. Digital money was automatically moved through a complex chain of different e-wallets.

Money from e-wallets was then transferred to debit cards and withdrawn in cash via ATMs. Withdrawals via ATMs were conducted by "cash co-ordinators" who had multiple debit cards at hand (all cards were issued on the names of straw men¹⁾). Afterwards, cash was handed over to interested parties. In order to increase the complexity, proceeds were re-deposited on a new set of debit cards and transferred to the OCGs (usually located abroad).

In similar schemes, funds from e-wallets were exchanged into Bitcoins via virtual currency exchangers. The Bitcoins were used to pay salaries to members of the drug trafficking organisation. This included low-level members, such as small dealers and runners who facilitated the sale of drugs. The same financier worked with multiple owners of the Dark Web stores, distributing the laundered funds to the respective OCGs.

Note: 1. The term “straw men” refers to informal nominee shareholders and directors who are being controlled by the actual owner or controller of the company.

Source: The Russian Federation

Proxy Networks

Proxy networks are PMLs who supply a type of banking service to OCGs, generally through the use of multi-layered transfers via bank accounts. These specialised services offer all of the advantages that come with moving funds globally via the legitimate financial sector. The main task of these proxy networks is to move client funds to the final, pre-determined destination and to obfuscate the trail of the financial flows. In many cases, these schemes are supported by TBML mechanisms.

PML schemes that are arranged with the use of bank accounts consist of multiple layers of shell companies in different jurisdictions, which have been established purely to redistribute and mix funds from various sources. These shell companies could be located in the country where the predicate offence occurred, transit countries or countries where the final investment of funds is conducted. This scheme is designed to make the portion of funds that belong to a client untraceable. In most cases, laundered funds are transferred to a client's personal bank account(s), affiliated companies or foundations under their control, or handed over to them as physical cash.

In general, a cross-border ML scheme arranged by a proxy network has the following structure:

- **Step 1:** Clients' funds are transferred to accounts opened in the name of shell companies controlled by the PML, often through the use of legal entities controlled by them, or entities operating on their behalf. If the criminal proceeds were obtained in cash, controllers arrange to collect and deposit the cash into the accounts of PML-controlled shell companies.
- **Step 2:** Funds are moved through a complex chain of accounts established by domestic shell companies under fictitious contracts. The funds from different clients are mixed within the same accounts, which makes it difficult for investigators to trace the funds coming from a particular client.
- **Step 3:** Funds are transferred abroad under fictitious trade contracts, loan agreements, securities purchase agreements, etc. In most cases, accounts of the first-level layer of foreign companies are controlled by the same money launderers, who facilitated Step 1, or by foreign PMLs who act in collaboration with the domestic money launderers.
- **Step 4:** Funds are moved through a complex chain of international transfers. The ML infrastructure used (i.e. accounts set up by shell companies) is typically used to channel money that comes from all over the world. These

international money transfers often demonstrate similar geographical patterns.

- **Step 5:** Funds are returned to the accounts controlled by the initial clients, their close associates or affiliated legal entities and arrangements. Alternatively, the PML will purchase goods and services on behalf of the OCG. PMLs that arrange these schemes provide different reasons to justify or legitimise the wire transfers they conduct. These may include trade in various goods and services, import/export services, loans, consultancy services or investments. PMLs look for loopholes and other possible purposes for payments that give the veneer of legitimacy to these transactions. Bank accounts are chosen to make the activity appear legitimate, and to avoid suspicious transactions reporting and/or instances where the transaction are blocked by financial institutions. For example, PMLs use accounts of various characteristics (i.e. accounts where the activity volume was small, medium or large), in accordance with the sums laundered.

Box 7. Facilitating the Laundering of Proceeds from Bank Fraud

In 2015, Russian law enforcement authorities, in co-operation with the FIU and the Central Bank, disrupted a large-scale scheme to embezzle funds and subsequently conduct illicit cross-border transfers.

During the course of the investigation, it was established that OCG members assisted in stealing assets from a number of Russian banks. Typically, the bank management team knowingly granted non-refundable loans and conducted fictitious real estate deals, which led to the bank's premediated bankruptcy. Illicit proceeds were then moved abroad via accounts of shell companies.

Law enforcement authorities and the FIU, in co-operation with foreign counterparts, detected a wider scheme of illicit cross-border money transfers that was used to move proceeds from several predicate offences abroad. Funds were moved via accounts of domestic shell companies and offshore companies (registered in the UK, New Zealand, Belize and other jurisdictions), with their accounts held by banks in Moldova and Latvia, under the pretext of fictitious contracts and falsified court decisions.

One of the major launderers of this scheme received profits for his services in his own personal bank accounts from two offshore companies that were used in the scheme.

The OCG consisted of more than 500 members. Law enforcement authorities seized more than 200 electronic keys of online bank accounts; more than 500 stamps of legal entities; shadow accountancy documents, copies of fictitious contacts; and cash. Bank managers and other complicit individuals were arrested.

Source: The Russian Federation

Social engineering frauds and other types of Internet-based fraud are often a source of illicit proceeds that may be laundered through a proxy network:

Box 8. Creating Infrastructure to Launder Funds

This investigation was conducted by a specially designated Israeli Task Force for PML investigations, which includes members from the Israeli Police, Tax Authority, IMPA (FIU) and Prosecution. The investigation also involved the co-operation of LEAs in another country.

The suspects of the investigation were criminals conducting massive fraud and extortion, as well as PMLs, who assisted the predicate offenders in laundering the proceeds of crimes. Funds were laundered using shell companies established in Europe and the Far East. "Straw men," couriers and hawala-type services. The companies were established in advance in countries that were less susceptible for illegal activity in the eyes of the fraud victims.

The PML built the infrastructure that enabled the ML activity, which in turn was part of a global ML network. The PML, through the use of other individuals, opened foreign bank accounts, established foreign companies, and also used a repatriation network of foreign immigrants to move funds as part of the ML network.

The suspects transferred fraudulent proceeds to bank accounts opened in the name of the shell companies and straw men. The funds were then transferred to other bank accounts in the Far East and immediately the suspects withdrew money in cash by using couriers, hawala networks and MVTS providers in Israel to transfer the funds to their final destinations.

During the investigation, an Israeli suspect (one of the PMLs) was arrested by an LEA of a third country. This assisted the investigation in understanding the modus operandi of the PMLN. It was established that the PML of the network was also able to provide bank accounts of various characteristics (i.e. accounts where the activity volume was small, medium or large in accordance with the sums laundered). The bank accounts were thus chosen to make the activity look legitimate, avoiding unusual activity reports and/or instances where the transaction is blocked by the financial institution concerned.

Source: Israel

Proxy networks that facilitate cross-border movement of funds often tie into a wider network of other PMLs in several countries for the purpose of moving and laundering funds to and from the country where the predicate offence took place. PMLs who facilitate the outgoing flow of funds from the country where the predicate offence was conducted are typically part of a broader, global ML network that specialises in moving illicit proceeds around the globe. Some third-party money launderers, identified by responding countries, also acted through collaboration with other PMLs operating abroad which provided ML services at their request. The use of a global network of PMLs, located in different countries, as well as using different methods to transfer funds internationally, ensures the diversification of financial transactions and helps to limit the risk of detection. An analysis of proxy networks shows that PMLs may change their *modus operandi* and employ different contacts as needed.

Box 9. Large-Scale International Money Laundering Platform

A financial investigation was initiated into the embezzlement of public funds and suspected corruption, which led to the detection of a large-scale international ML platform that was used to move funds originating from different sources.

The proceeds of crime were moved to accounts of shell companies held with banks in Latvia, Cyprus and Estonia. The criminal proceeds were further transferred to accounts of companies controlled by the beneficiary's close associates and then moved back to Russia. Further investigation revealed that various companies used the same channel to move the funds.

A criminal proceeding on articles "Fraud", "Arrangement of organised criminal group" and "Money Laundering," according to the Criminal Code of the Russian Federation, was opened. The Central Bank of the Russian Federation withdrew the license of the Russian bank that facilitated frequent cross-border money transfers under fictitious contracts for violations of AML legislation. The European Central Bank also withdrew the license of a Latvian bank that facilitated the redistribution of criminal proceeds. A significant portion of funds was frozen on the accounts held by Latvian banks.

While the investigation of the case started with a particular predicate offence, it led to the identification of a wide international PML scheme that was used to move funds originating from various crimes. There are also indications that clients from other countries used this ML scheme. In a demonstration of the interconnectedness of PML, some companies involved in this scheme have financial links with a UAE company designated by the US in relation to the Altaf Khanani Money Laundering Organisation,¹ described in Box 1.

Note: 1. See Section III for the case study on this MLO.

Source: The Russian Federation

PML schemes and infrastructure can also be used to launder funds and to facilitate large-scale tax evasion schemes. In such schemes, multiple layers of shell companies may be used between the importer and producer of goods that are located abroad. Funds used for the purchase of foreign goods thus go through a complex chain of transactions, with only one portion of these funds used for the import deal. The rest is directed to accounts controlled by beneficiaries.

Proxy networks also use layering schemes to transform illicit proceeds generated within the financial system into cash. This is mostly arranged for those clients who need to move criminal proceeds from bank accounts to physical cash. The majority of such clients are involved in public funds embezzlement, tax fraud and cyber fraud schemes. At the final stage, funds are transferred to corporate bank cards, followed by subsequent cash withdrawals. The number of shell companies and personal bank accounts involved may exceed several thousands. This limits the risk of detection and diversifies possible losses.

In some cases, cash withdrawals may be conducted abroad. In one case, funds were channelled to accounts of companies registered in the Middle East, with subsequent

cash withdrawals via exchange houses. Cash was then transported back to the country of origin and declared on the border as profits from legitimate business activities in the Middle East, which were intended to be used for the purchase of real estate.

SECTION V: SUPPORTING MECHANISMS USED BY PROFESSIONAL MONEY LAUNDERERS

PMLNs use a wide variety of ML tools and techniques. Among the most significant mechanisms are TBML, account settlement mechanisms and underground banking.

Trade-Based Money Laundering (TBML)

TBML is defined as “the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimise their illicit origin.”³ There are various TBML variations that can be employed by PMLs. These include:

- *The purchase of high-value goods using the proceeds of crime*, followed by the shipment and re-sale of goods overseas;
- *The transfer of funds which purport to be related to trade*, or to the purchase of goods that are ultimately never shipped or received (also known as “phantom shipments”);
- *Falsifying the number and/or value of goods being shipped* to be higher or lower than the corresponding payment, allowing for the transfer or receipt of the value of proceeds of crime (also known as over or under-invoicing);
- *Using the proceeds of crime to purchase goods for legitimate re-sale*, with payment for goods made to drug traffickers/distributors by legitimate business owners (e.g. the Black Market Peso Exchange - BMPE); and
- *Using Money (Peso) Brokers*, who are third parties that seek to purchase drug proceeds in the location where illicit proceeds are earned by drug cartels (e.g. Colombia, Mexico) at a discounted rate. Money brokers often employ many individuals responsible for collecting narcotics proceeds and disposing of those proceeds, as directed by either the drug trafficking organisation or the money brokers who serve as PMLOs.

Box 10. ML Network, Operating as a Trade-Based ML Scheme1

Project OROAD was a joint task force financial investigation, launched from a drug investigation into ML activities of a suspicious group². Information received from FINTRAC helped identify a complex TBML where two of the group’s central figures hired 10 nominees to establish 25 shell companies. The shell companies were opened using names across a diverse number of

³ FATF, 2006.

industries: landscaping, interior design, electronics, metal recycling, plastics recycling, construction supplies, beauty supplies, etc.

The laundering network included legitimate businesses, operating in the financial and real estate sectors, as well as a small financial company, which was complicit in laundering the funds. The money launderer provided his accomplice at the financial company with large bags of cash, which were then deposited into business accounts in the name of shell companies. This continued until the accounts were closed by the financial institution that held the shell company's accounts, due to a high volume of suspicious transactions.

Investigators believe the ML group used a TBML scheme. The ML operation and the network of shell companies were largely centred on a logistics company. One of the money launderers was seen leaving the logistics company location with large bags of bulk cash, which were believed to be the proceeds of drug sales. The money launderer used nominees to make multiple cash deposits into their personal and business accounts.

The money launderer instructed nominees to either i) transfer funds back to the logistics company; or ii) transfer funds to other business accounts, held by nominees located in Canada, China, Panama and the US. Funds were sent by wire transfer, bank draft or cheque, some of which were then returned to the logistics company. In each case, the money launderer used fraudulent invoices to account for the proceeds of drug sales so that they could be more easily integrated into the financial system.

Investigators believe that some of the funds were transferred back to the Mexican drug trafficking organisation and to other companies controlled by the drug trafficking organisation in China, Mexico and the US. In some cases, funds were used for to purchase goods located in Panama or Mexico. The ringleaders in Canada established companies in these countries in attempts to make the transfers seem legitimate. The purchased goods were then shipped to other foreign countries for sale. Once the purchased goods arrive at the destination country, they were sold, and the proceeds of the sale (in the destination country's currency) were then transferred to the drug trafficking or ML organisation to provide the criminals with "clean" funds, laundered through TBML.

Notes:

1 See case study "Operation Snake" in Section III, which involves another professional ML network using a TBML and MVTS scheme

2 The investigation also revealed a number of bulk cash transactions between the ring and illegal money brokers; however, the focus here is on the ML ring.

Source: Canada

PMLs may also create and use false documentation, layer related financial transactions and establish shell and/or shelf companies to facilitate purported trade transactions. By using TBML mechanisms, PMLs can break the link between the predicate crime and related ML, making it difficult to associate the criminals with the ML activity.

Box 11. Venezuelan Currency Smuggling Network

During 2015, 10 limited liability companies established by a single person in Spain processed more than 110 000 transactions, totalling EUR 22.4 million, through mobile payment “point of sale (POS)” terminals. Nine of these companies were purportedly active as travel agencies, eight shared the same registered offices and six had the same associate and director.

The POS terminals held by these companies exclusively accepted payment cards issued by the Venezuelan government (Comisión de Administración de Divisas - CADIVI). Given strict currency controls in Venezuela, residents can only obtain foreign currencies when traveling abroad. Therefore, a maximum of USD 3 000 at a rate of 6.3 bolivars per dollar can be exchanged. This led to a large currency exchange fraud called “el raspao,” where Venezuelan residents accessed euros or dollars, under the false pretence of a journey abroad. The payment cards issued by the CADIVI, at the official exchange rate, were debited abroad while drug traffickers received the counter value in cash, in euro or dollar notes, which was then smuggled back into Venezuela and sold on the black market at a rate of about ten times the official exchange rate. Authorities in Luxembourg suspect that the payment cards issued by CADIVI were smuggled in bundles to Spain and swiped through the POS terminals of complicit traders who operated through Spanish front companies.

Drug traffickers and Colombian cartels are believed to have taken advantage of this currency smuggling network in order to repatriate the proceeds generated in cash through drug sales in Europe back to South America. These criminals washed their illicit cash by handing it out to Venezuelan currency traffickers. Once processed, the debited amounts were credited to linked bank accounts. These bank accounts had International Bank Account Numbers (IBANs), issued by a former Luxembourg-licensed electronic money remitter.

AML investigations by the regulator and the financial intelligence unit (FIU) revealed that the Luxembourg electronic money remitter did not manage these accounts itself, as stipulated in regulation, but handed them over to a Bulgarian-licensed electronic money remitter, which used the accounts for its own customers. The POSs were sold to the Spanish front companies by the Bulgarian electronic money remitter. Additionally, the Spanish front companies applied for hundreds of withdrawal cards (most front companies had more than 10 withdrawal cards each), issued by the Bulgarian electronic money remitter, in order to allow them to withdraw cash from their accounts. About 106 000 withdrawals, totalling more than EUR 20 million were made at ATMs situated in Colombia. These withdrawals did not comply with the daily, weekly and monthly limits as laid out in the general terms and conditions of the Bulgarian electronic remitter. Authorities in Luxembourg were not aware of any related suspicious transaction reports that were reported to the Bulgarian FIU. The Luxembourg and Bulgarian electronic remitters were held by the same beneficial owner. Commissions received by the Bulgarian electronic remitter on the operations totalled as much as EUR 1.9 million, or 9 % of the amounts processed through the POSs.

Source: Luxembourg

Account Settlement Mechanisms

PMLNs can facilitate the settlement of accounts between multiple OCGs. They may do this for OCGs operating in different countries that generate proceeds from cash and hold funds within bank accounts. A PML may, for example, simultaneously provide ML services to criminals who have cash and want to send funds to bank accounts in other countries, and to criminals who have money in their bank accounts but need cash (e.g. to pay their networks and workers). This *modus operandi* is called an *account settlement mechanism*.

The case, below, illustrates how a PMLO accepted and moved cash by car to Belgium, as part of an account settlement mechanism.

Box 12. Money Laundering as Part of an “Account Settlement Scheme” Between Various Criminal Organisations

Several Belgian corporate customers transferred funds to the accounts of Belgian construction or industrial cleaning companies and their managers. These companies had a similar profile: they operated in the same industry, the managers were often from the same country, the articles of association were copied with slight modifications, and the companies' financial health was poor. Some companies had already gone bankrupt or no longer complied with their legal requirements.

Funds were channelled through different accounts: Part of the funds credited to the accounts was withdrawn in cash, presumably to pay workers. Another part of the funds were transferred to companies located abroad, in Europe and in Asia.

The funds transferred to Europe were credited to the accounts of other companies in the same industry. Often no explanation was provided for these transfers, even though the scale was significant. The references accompanying these transfers, if any, were vague. The majority of the funds were subsequently withdrawn in cash.

The funds transferred to Asia, mainly China and Hong Kong, were credited to the accounts of limited liability companies, which were not linked to the construction or industrial cleaning industry in any way.

Information received from a counterpart FIU revealed links with a criminal organisation involved in drug trafficking. This organisation, which held large amounts of cash, used an organisation that laundered the funds and transported the cash to Belgium by car. In Belgium, intermediaries then handed over the cash to various companies in Belgium that required cash to carry out their activities.

Based on this information, authorities have concluded that the Belgian construction and industrial cleaning companies involved in this case were part of an account settlement scheme. The cash proceeds of drug trafficking were used to pay illegal workers of Belgian companies.

Source: Belgium

Underground Banking and Alternative Banking Platforms

Underground banking is one tool often used by PMLs. This mechanism is used, with the goal of bypassing the regulated financial sector and creating a parallel system of moving and keeping records of transactions and accountancy.

Box 13. Investigation of Massive Underground Banking System

Subject X and his network of associates in British Columbia, Canada, are believed to have operated a PMLO that offered a number of crucial services to Transnational Criminal Organisations including Mexican Cartels, Asian OCGs, and Middle Eastern OCGs. It is estimated that they laundered over CAD 1 billion per year through an underground banking network, involving legal and illegal casinos, MVTSS and asset procurement. One portion of the ML networks illegal activities was the use of drug money, illegal gambling money and money derived from extortion to supply cash to Chinese gamblers in Canada.

Subject X allegedly helped ultra-wealthy gamblers move their money to Canada from China, which has restrictions on the outflow of fiat currency. The Chinese gamblers would transfer funds to accounts controlled by Subject X and his network in exchange for cash in Canada. However, funds were never actually transferred outside of China to Canada; rather, the value of funds was transferred through an Informal Value Transfer System. Subject X received a 3-5% commission on each transaction. Chinese gamblers were provided with a contact, either locally or prior to arriving in Vancouver. The Chinese gamblers would phone the contact to schedule cash delivery, usually in the casino parking lot, which was then used to buy casino chips. Some gamblers would cash in their chips for a "B.C. casino cheque", which they could then deposit into a Canadian bank account. Some of these funds were used for real estate purchases. The cash given to the high-roller gamblers came from Company X, an unlicensed MVTSS provider owned by Subject X. Investigators believe that gangsters or their couriers were delivering suitcases of cash to Company X, allegedly at an average rate of CAD 1.5 million a day. Surveillance identified links to 40 different organisations, including organised groups in Asia that dealt with cocaine, heroin and methamphetamine.

After cash was dropped off at Company X, funds were released offshore by Subject X or his network. Most transactions were held in cash and avoided the tracking that is typical for conventional banking. Subject X charged a 5% fee for the laundering and transfer service. As the ML operation grew, the money transfer abilities of Company X became increasingly sophisticated to the point where it could wire funds to Mexico and Peru, allowing drug dealers to buy narcotics without carrying cash outside Canada in order to cover up the international money transfers with fake trade invoices from China. Investigators have found evidence of over 600 bank accounts in China that were controlled or used by Company X. Chinese police have conducted their own investigation, labelling this as a massive underground banking system.

Source: Canada

An *alternative banking platform (ABP)* is an alternative bank that operates outside the regulated financial system. However, an ABP may use the facilities of the formal banking system, while creating a parallel accountancy and settlement system. ABPs are a form of shadow banking that make use of bespoke online software to provide banking services, without the regulated and audited customer due diligence checks. They are an effective way to transfer the ownership of money anonymously and provide banking services within a bank account across a number of individuals, without being reflected in traditional banking transactions. Usually, it is supported with special software that can encrypt traffic, manage transactions between accounts within the same platform, apply fees and assist with interaction with the outside financial system.

Box 14. Alternative Banking Platforms

An alternative banking platform (ABP) was used to assist organised crime groups (OCGs) in the UK to launder funds from VAT fraud. The ABP had a registered office in one jurisdiction with a holding company in a second jurisdiction and a bank account in a third jurisdiction. It was operated by a PMLN based in a fourth jurisdiction all outside of the UK. The ABP was used for a year with over EUR 400 million moved through it. The ABP was shut down and the creator of the financial software was arrested by international partners, with assistance from Her Majesty's Revenue and Customs (HMRC). The data gathered from the ABP servers was used to identify other ABPs and develop additional cases.

Source: United Kingdom

In some cases, PMLs use specialised software to create an ML scheme to move funds randomly through numerous accounts. This software is generally based on a random data generator principle.

SECTION VI: COMPLICIT/CRIMINAL FINANCIAL SERVICE PROVIDERS AND OTHER PROFESSIONALS

As mentioned in **Section II**, PMLs may occupy positions within the financial services industry (e.g. bankers and MVTs agents) and DNFBP sectors (e.g. lawyers, accountants and real estate professionals), and use their occupation, business infrastructure and knowledge to facilitate ML for criminal clients. The use of occupational professionals can provide a veneer of legitimacy to criminals and OCGs. As such, OCGs actively seek out insiders as potential accomplices to help launder illicit proceeds. In rare instances, complicit actors who facilitate PML schemes come from within a government institution (i.e. a corrupt official).

Box 15. Corrupt Official Joining Criminal Enterprise to Launder Funds

Ukraine's law enforcement and prosecution services conducted an investigation of a high-ranking official who abused his power and official position for approximately three years. The official agreed to participate in the

creation of a criminal organisation and implemented an illegal scheme for minimising tax liabilities, which led to the illegal use of a tax credit. The public official received a cash fee for his services, which were performed with the participation of other public officials and other members of the criminal organisation.

The public official conducted a number of functions to make illicit proceeds appear legitimate, including creating, registering and owning a number of shell companies on behalf of members of the criminal organisation and purchasing property on their behalf. The official also established offshore companies in Cyprus and the BVI using his relatives as nominees. The high-ranking official also acquired entities registered in Ukraine, which were controlled by his offshore companies, by transferring funds from a bank in Liechtenstein. Funds transferred into Ukraine were used to purchase property. Fictitious contacts or agreements (e.g. for consultation services) were also established using a network of fictitious entities for services that were never rendered.

Source: Ukraine

PMLs often ignore or circumvent AML/CFT requirements or actively conceal AML/CFT failures within a particular institution or business. They may also ignore professional obligations, such as restrictions associated with their licenses or professional ethics rules. While the exact definition of complicity is a matter of domestic law, it is widely understood as intentional acts carried out with knowledge or wilful blindness of the illicit nature of the funds with which the person is dealing. The ability of a criminal to purchase or gain ownership or control of a financial business is the ultimate measure of success.

Criminals will actively seek to recruit complicit insiders within existing institutions or businesses, since these individuals have insider access and may be able to falsify records or initiate transactions in a manner, which bypasses AML/CFT regulations or institutional practices. In rare circumstances, criminals may be able to compromise entire institutions or businesses, including by acquiring ownership or control of the institution and appointing their own criminal management. The complicit activity described above (insider compromise and institutional compromise) should not be confused with instances of lax compliance, weak internal controls or inadequate corporate governance structures, which can result in compliance deficiencies with AML/CFT requirements. A reputation for weak compliance, however, may make the institution more attractive for an OCG seeking out a corrupt insider.

Money Value Transfer Services (MVTS) Providers

Case studies and insight provided by delegations show that MVTS providers have knowingly facilitated PML activities, including currency conversions (i.e. foreign exchange), cash-based transactions, and/or electronic funds transfers. Complicit MVTS providers can play an important role in the placement stage of the ML process. The most common ML transactions facilitated by MVTS providers are:

- cash purchases of funds transfers at the physical location of MVTS providers;

- large cash deposits made in the accounts of individuals and businesses followed by a domestic transfer to the account of an MVTS provider, or the purchase of bank drafts (e.g. cashier's check) payable to an MVTS provider; and
- the purchase of bank drafts for the benefit of individuals and businesses, which are negotiated by MVTS providers to fund the purchase of funds transfers.

Box 16. Use of Foreign Exchange Broker and “Quick Drop” Facilities

A mechanic in the UK acted as a professional launderer for an unknown PMLN. The mechanic opened bank accounts in the UK, which were used to deposit GBP 5.3 million in cash between October 2013 and December 2014. Multiple deposits of GBP 25 000 were paid into the bank accounts per day using bank ‘quick-drop’ facilities. Once paid into the bank accounts, money was transferred to third-party bank accounts held in the UK and six other jurisdictions using bank and foreign exchange broker transfers. The mechanic was paid GBP 20 000 for moving the cash abroad. The launderer pleaded guilty to three charges of ML and, in April 2018, was sentenced to six years in jail and banned from being a company director for nine years.

Quick drop is a facility to deposit, cash either at the bank directly or at a third-party facility, where the money is counted and then transferred to the bank to be deposited⁴. Quick drop facilities allow cash to be deposited quicker, at more locations and often without coming into contact with staff.

Source: United Kingdom

Analysis conducted by some competent authorities indicates that complicit MVTS providers may continue to file suspicious transaction reports (STRs). For example, STRs may be filed so as not to arouse suspicion or give the perception that the MVTS provider is otherwise compliant. In jurisdictions that require other forms of transaction reporting, such as threshold cash transactions, complicit MVTS may operate two sets of account records (i.e. shadow accountancy), one of which is used exclusively for criminal clients and for which no reports are filed. Alternatively, these complicit MVTS providers may report the transactions using fictitious transaction details.

Box 17. Complicit MVTS Agents to Facilitate Third-Party ML

The Italian FIU identified a significant reduction in remittances sent to Country “A” within a three year period (from EUR 2.7 billion in 2012 to EUR 560 million in 2015). This data highlighted the specific exposure of this ‘corridor’ to the risk of channelling illegal funds.

Further analysis of STRs led to the detection of alternative channels, used by

⁴ UK National Risk Assessment of Money Laundering and Terrorist Financing, October 2015

PMLNs, to transfer significant amounts to Country A. A significant portion of the reduction of remittances towards Country A was related to the migration of many Italian MVTS agents towards foreign ones that do not produce statistical reports under national legislations, and are not subject to Italian AML and fiscal requirements.

The FIU received many STRs concerning suspicious activity traced back to Italian money transfer agents. Financial flows were mainly characterised by significant cash deposits and wire transfers in favour of the Italian bank accounts of the foreign MVTS. Such financial flows allegedly referred to money remittances performed by MVTS agents. However, suspicion was triggered given that the agents sometimes deposited cash into their accounts through a branch of the bank located far away from their business. The FIU extended its studies to gain a better understanding of financial flows performed by the MVTS and agents, which revealed that in some cases:

- the MVTS legal representatives were involved;
- the MVTS had been recently incorporated;
- the MVTS had links to subjects originating from Country A;
- the MVTS had opened a branch in an Italian city that is well known for its growing economic and business links with Country A;
- many agents of the same foreign MVTS – all originating from Country A – had already been reported to the Italian FIU or had been prohibited from performing agent activities by the competent financial supervisory authority of Country A, for anomalous transactions and use of false ID documents for CDD purposes;
- the MVTS agents allowed their customers to structure transactions by splitting up remittances with several accomplices; and
- certain MVTS agents revealed tangible links to a common customer base.

In view of analysis carried out, the MVTS provider and agents were found to have disregarded AML obligations, exploiting asymmetries in the regulatory framework among different countries. A well-organised, skilled and complicit network of agents and foreign MVTS had been used to collect funds in Italy, and to transfer significant amounts abroad, splitting up remittances with several accomplices.

Source: Italy

Financial Institutions

The use of the international financial system has been instrumental in facilitating large-scale PML schemes. All of the complex layering schemes described in **Section IV** involve moving significant volumes of funds through various bank accounts in different jurisdictions opened on behalf of shell companies. These well-structured schemes often go undetected by banks, even in situations where there is an insider involved.

Investigative authorities have been able to detect patterns in how PMLs choose certain jurisdictions and banks that are used to move illicit proceeds. For example,

some criminals seek to use banks that operate in lax regulatory environments or have reputations for non-compliance with AML/CFT regulations.

It is challenging for competent authorities to establish factual evidence, which demonstrates that financial institutions are actively complicit in facilitating ML. Bank insiders generally do not communicate openly about their criminal conduct and may be able to leverage their insider status to conceal misdeeds. This can make it difficult to detect and prosecute wilful misconduct by complicit financial services professionals. A range of employees within financial institutions (from lower-level tellers to higher-level management) pose a significant vulnerability that can be exploited by money launderers, but also senior insiders who knowingly assist in ML may cause more damage.

Complicit bank employees may perform functions such as:

- Creating counterfeit checks;
- Monitoring (or not appropriately monitoring) money flows between accounts controlled by the co-conspirators;
- Co-ordinating financial transactions to avoid STR reporting;
- Accepting fictitious documents provided by clients as a basis for transactions, without asking any additional questions; and
- Performing ‘virtual transactions’ on the accounts of their clients – numerous transactions conducted, without an essential change of the net balance at the beginning and end of a working day.

Box 18. General Manager and Chairman of a Foreign Bank

An investigation by Italian authorities uncovered various ML operations that were carried out by senior foreign bank officials (general manager and chairman), together with a complicit accountant and a lawyer. The illicit proceeds were derived from an international cocaine trafficking organisation.

The criminals were put in contact with the general manager and the chairman of the foreign bank, which was experiencing a serious liquidity crisis at the time. The criminals and the bank executives agreed that one of the drug traffickers would deposit, in his own name, about EUR 15 million at the bank in crisis. This bank committed to provide the two professionals (the lawyer and accountant, noted above, who were also brothers) with a given amount of money in compensation for the intermediation work they performed, to be credited to accounts specifically opened in their names at the bank.

The accountant was also in charge of performing accounting tasks for several companies belonging to the drug trafficker. Following the intermediation activity, the bank's general manager received EUR 1.3 million, in two instalments, from a deposit made in the name of the drug trafficker. Subsequently, the bank's general manager, with the approval of the bank's chairman, started complex financial operations aimed at concealing the unlawful origin of the money deposited.

Authorities were able to ascertain the role played by the lawyer, leaving no

doubt as to his function as an intermediary between his client (custodian) and the bank, and the lawyer's knowledge of the actual illicit source of the money involved.

Source: Italy

The case below demonstrates a combination of different elements and tools, including the sale of shell companies, facilitation of transactions by complicit bank employees and the execution of deals on securities markets.

Box 19. Complicit Bank Employees, Securities Market Deals and the Sale of Shell Companies

An investigation by Russian authorities, conducted in co-operation with foreign FIUs, uncovered an ML and tax evasion scheme that was arranged by complicit bank employees and brokers.

Funds accumulated in bank accounts of shell companies were transferred abroad under the pretext of securities purchases by order of broker "R." At the same time, two broker companies operating on the London Stock Exchange sold shares for the same price, thus facilitating the transfer of money via mirror trading.

All limited liability companies used in this scheme were established by a legal service firm, specialising in the sale of "off-the-shelf" companies. Criminal proceedings were opened. The licenses of one of the banks that facilitated cross-border transfers, and of the securities company, were withdrawn for violations of the AML legislation.

Source: The Russian Federation

1. The cases analysed and information received also demonstrated that private banking advisors may act as PMLs and provide services to conceal the nature, source, ownership and control of the funds in order to avoid scrutiny, by employing various techniques, including:

- Opening and transferring money to and from bank accounts held in the names of individuals or offshore entities, other than the true beneficial owners of the accounts;
- Making false statements on bank documents required by the bank to identify customers and disclose the true beneficial owners of the accounts;
- Using "consulting services" agreements and other similar types of contracts to create an appearance of legitimacy for illicit wire transfers;
- Maintaining and using multiple accounts at the same bank so that funds transfers between those accounts can be managed internally, without reliance on international clearing mechanisms that are more visible to law enforcement authorities; and

- Opening multiple bank accounts in the names of similarly-named companies at the same, or different, institutions so wires do not appear to be coming from third parties.

Legal and Professional Services

In order to place greater distance between their criminal activity and the movement of funds, some OCGs use the services of third-party money launderers, including professional gatekeepers, such as attorneys, accountants and trust and company service providers (TCSPs). One delegation noted that OCGs tend to use professional service providers to set up corporate structures, and that accountants are favoured due to the range of skills and services that they may provide. There are case examples demonstrating that these types of professionals have been recruited to work as PMLs on behalf of larger criminal enterprises, such as DTOs. FATF's 2013 Report on *ML and TF Vulnerabilities of Legal Professionals* mentions that criminals often seek out the involvement of legal professionals in their ML/TF activities because they may be required to complete certain transactions or provide access to specialised legal and notarial skills and services, both of which can assist the laundering of the proceeds of crime

Box 20. A Complicit Lawyer and Bank Employee

A lawyer in Texas was convicted for laundering money for an OCG and engaging in a variety of fraud schemes. The OCG operated in the US, Canada, Africa, Asia and Europe. A complicit bank employee was also convicted for her role in creating counterfeit checks and monitoring money flows between the numerous accounts controlled by the OCG.

All of the victims of these various fraud schemes were instructed to wire money into funnel accounts held by other co-conspirators (money mules), who then quickly transferred the money to other US accounts as well as accounts around the world before victims could discover the fraud. Several millions of dollars were laundered in this manner. The numerous bank accounts opened by the mules served as the initial "layer" in the laundering process, which allowed co-conspirators to distance or conceal the source and nature of the illicit proceeds. For example, during a one-year period, a key money mule opened 38 fraudulent bank accounts.

The fraud schemes took several forms. Many victims were law firms that were solicited online provided counterfeit cashier's checks for deposit into the firms' trust accounts. The law firms were then directed to wire money to third-party shell businesses controlled by the co-conspirators. The fraud conspiracy also employed hackers who compromised both individual and corporate e-mail accounts, ordering wire transfers from brokerage and business accounts to shell accounts controlled by co-conspirators. The shell companies were incorporated in Florida with fictitious names and then used to open bank accounts at banks in Florida in those names.

The licensed attorney in Texas worked for the co-conspirators by laundering victim money through an interest on lawyers trust account (IOLTA). He also

met with individual money mules to retrieve cash from their funnel accounts. The lawyer recruited his paralegal and others to open accounts used in the laundering scheme.

Source: United States

One case involves a licensed attorney who was considered a full member of an OGC. As in the case above, the attorney facilitated ML services by using his interest on lawyers trust account, or ILOTA⁵, to transfer the proceeds of drug trafficking and fraud.

Box 21. Operation CICERO

This case was initiated by a special currency police unit within the Guardia di Finanza as a follow-up investigation to a judicially authorised search conducted on the boss of a major organised crime group (La Cosa Nostra or LCN) in Palermo, Italy. This investigation was aimed at identifying those individuals acting as nominees, as well as individuals who facilitated the movement of criminal proceeds on behalf of LCN. The investigation identified that a well-known lawyer was the beneficial owner of the companies used to launder funds via a Palermo-based construction company, which was linked to family members of the organised crime boss.

The lawyer performed a “money box” function for the LCN, which consisted of managing the financial resources of the crime group with the purpose of concealing the origins of the illicit proceeds and avoiding detection by authorities of any assets purchased from these proceeds. Through his professional relationships, the lawyer developed and tapped into an elite social network, which he also made available to the organised crime group.

The lawyer, who was operating as a PML, conducted a number of services, such as: (a) obtaining a mortgage to purchase an apartment with EUR 450 000 in criminal proceeds on behalf of an organised crime family member; (b) using a fictitious contract to purchase an apartment with EUR 110 000 on behalf of the organised crime group; and (c) layering and integrating legal funds with criminal assets derived from construction work carried out on land purchased with criminal proceeds.

This investigation led to confiscation proceedings against nine individuals totalling EUR 550 000 as well as seven properties owned by the lawyer.

Source: Italy

⁵ An IOLTA is an account opened by an attorney with the intention of holding client funds for future services. It is opened at a bank with a presumed higher level of confidentiality accorded to attorney-client relationships and related transactions.

PMLs also often use shell companies to facilitate complex ML schemes. Professional services may be used, such as the services of a TCSP or a lawyer, when setting up a shell company. Such professionals can supply a full range of services, including the incorporation of the company, the provision of resident or nominee directors, and the facilitation of new bank accounts.

Box 22. Use of Shell Companies and Accountant Providing Corporate Secretarial Services

Person G was a chartered accountant in the business of providing corporate secretarial services to small and medium-sized enterprises. As part of these services, he incorporated companies on behalf of his clients and acted as the resident director of companies whose directors were not ordinarily residents in Singapore.

Persons N and S, members of a foreign syndicate, approached Person G to set up three companies, Company K, Company W and Company M, and to apply for their corporate bank accounts in Singapore. Once the accounts were set up, Persons N and S left Singapore and never returned. Person G was appointed the co-director of the three companies; although, he was neither a shareholder, nor the authorised bank signatory of these companies.

These companies received criminal proceeds in their bank accounts derived from various frauds amounting to over SGD 650 000. The funds were quickly transferred by Person S to overseas bank accounts.

The companies had committed the offence of transferring benefits of criminal conduct, attributable to Person G's neglect. There was a lack of supervision by Person G over the companies' affairs, which allowed the foreign syndicate to have unfettered control over the companies and partake in their ML activities unimpeded. In January 2016, G was convicted of ML offences and for failing to exercise reasonable diligence in discharging his duties as a director. He was sentenced to a total jail term of 12 months, fined SGD 50 000 and disqualified from acting as a company director for the five years following his sentence.

Source: Singapore

After opening bank accounts in the name of shell companies, professional launderers may operate these accounts from overseas, receiving criminal proceeds from different individuals and companies to layer funds. The funds received in the shell companies' accounts are usually transferred out of the jurisdiction within a few days.

TCSPs are often blind to what their clients actually use the companies for, and therefore do not consider themselves complicit in ML schemes. However, a number of case studies have demonstrated that some TCSPs market themselves as 'no questions asked,' or being immune from official inquiries. Moreover, if the TCSP also acts as the director of the company, the TCSP has to perform these duties as a director and could be held liable for the offences committed by the company, as illustrated in the above case study.

Law enforcement agencies worldwide have noted that corporate structures are often used in PML schemes and that professional service providers are used in setting up structures. Law enforcement agencies have identified the use of complex corporate structures and offshore vehicles to conceal the ownership and facilitate the movement of criminal proceeds and that PMLNs exploit some TSCP services in the creation of structures. A handful of current investigations across the globe have indicated that TCSPs act as nominee directors of corporate structures with similar behaviours, observed whether large corporates or smaller TCSPs, including:

- using a 'tick the box' approach for compliance activity;
- distancing themselves from risk (i.e. downplay their responsibility);
- utilising chains of formation agents in multiple jurisdictions;
- engaging in deliberately negligent behaviour; and
- forging signatures and fraudulently notarising documents.

Box 23. Money Laundering through Real Estate Investments, Gastronomic Services and Show Production Services Linked With Drug Trafficking

An investigation was triggered by information received from OFAC, which revealed that an illicit network was conducting business activities in Argentina. This network was linked to an individual, J.B.P.C., who was suspected of being a member of a criminal organisation.

J.B.P.C., his family and business partners were also shareholders in a number of companies around the globe. More specifically, three Argentine companies (two operating companies and a management company) were suspected of developing ambitious real estate projects across the country. The president and main shareholder of those companies was Mr. B, a lawyer and friend of J.B.P.C. This person provided knowledge and experience on how to develop the businesses. Additional analysis revealed that J.B.P.C. was the shareholder of two other companies, which appeared as owners of the land where major real estate developments were to be undertaken.

Tax information that was collected by authorities revealed that these companies received accounting advice from Mr. C, who was a chartered accountant. He was also a shareholder and member of the Board of Directors of the concerned companies. Other transactions from J.B.P.C. were also detected during the same period. They were linked to two additional Argentine companies that provided bar services, coffee services and show production services. For one of the OFAC listed companies, it was discovered that the stock of the company was owned in its entirety by J.B.P.C.'s closest relatives. Likewise, management positions were occupied by his partners and close relatives. Another company, also with ties to J.B.P.C., opened an office in Argentina with the help of another lawyer, Mr. D.

The investigation into this case was conducted by FIU-Argentina in co-ordination with other domestic LEAs, as well as foreign counterparts in

Colombia (FIU-Colombia) and the United States (OFAC and DEA). Strong international co-operation was crucial to the success of this investigation, and joint efforts led to a significant number of simultaneous searches in Argentina, as well as in the other foreign jurisdiction where J.B.P.C. ran a majority of his illegal business. As a result, J.B.P.C., Mr. B and his spouse, Mr. C and Mr. D were arrested. Their property was also seized. Currently, they are facing prosecution in Argentina.

Source: Argentina

Payment Processing Companies

Payment processing companies provide payment services to merchants and other business entities, such as credit card processing or payroll processing services. Typically, bank accounts held by payment processors are used to facilitate payments on behalf of their clients. In certain circumstances, payment processing companies essentially act as “flow-through” accounts – there is no requirement for them to divulge the identities of their individual clients to financial institutions. Traditionally, payment processing companies were established to process credit card transactions for conventional retail outlets. However, over time, payment processing companies have evolved to serve a variety of domestic and international merchants, including Internet-based and conventional retail merchants, Internet gaming enterprises and telemarketing companies.

Payment processing companies can be used by criminal organisations to mask transactions and launder the proceeds of crime. For example, payment processing companies have been used to place illicit proceeds that originated from foreign sources directly into financial institutions⁶.

A number of countries have observed the use of payment processing companies by suspected ML networks. In other instances, telemarketing companies have also been suspected of providing payment processing services, where illicit proceeds are commingled with payments suspected of being related to mass marketing fraud. Authorities suspect that these types of payment processors may be used by members and associates of multiple transnational OCGs.

Box 24. International Payment Processor Providing ML Services

PacNet, an international payment processor and MVTS provider based in Vancouver, Canada, helped dozens of fraudsters gain access to US banks. PacNet has a 20-year history of engaging in ML and mail fraud, by knowingly processing payments on behalf of a wide range of mail fraud schemes that target victims throughout the world. When it was shut down, PacNet consisted of 12 individuals and 24 entities across 18 countries. The network collectively has defrauded millions of vulnerable victims across the US out of hundreds of

⁶ FINCEN, 2012 and FFIEC, nd.

millions of dollars.

With operations in Canada, Ireland and the UK, and subsidiaries or affiliates in 15 other countries, PacNet was the third-party payment processor of choice for perpetrators of a wide range of mail fraud schemes. US consumers receive tens of thousands of fraudulent lottery and other mail fraud solicitations nearly every day that contain misrepresentations designed to victimise the elderly or otherwise vulnerable individuals.

PacNet's processing operations helped to obscure the nature of the illicit funds and prevented the detection of fraudulent schemes. In a typical scenario, scammers mailed fraudulent solicitations to victims and then arranged to have victims' payments (both checks and cash) sent directly, or through a partner company, to PacNet's processing operations. Victims' money, minus PacNet's fees and commission, were made available to the scammers through wire transfers from the PacNet holding account, as well as by PacNet making payments on behalf of the scammers, thereby obscuring the link to the scammers. This process aimed to minimise the chance that financial institutions would detect the scammers and determine their activity to be suspicious.

The mail schemes involved a complicated web of actors located across the world and each scheme followed a similar pattern. These schemes involve a consortium of entities, including direct mailers, list brokers, printer/distributors, mailing houses, "caging" services⁷, and payment processors. These six diverse groups worked together to (i) mail millions of solicitation packets each year, (ii) collect and distribute tens of millions of dollars in annual victim payments, and (iii) attempt to obscure their true identities from victims and law enforcement agencies worldwide.

Source: United States

Virtual Currency Payment Products and Services (VCPPS)

As noted in **Section IV**, PMLs offer a variety of services including the use of virtual currency in an attempt to anonymise those committing crimes and their illicit transactions. The use of complex, computer-based fraud schemes has led cyber criminals to create large-scale mechanisms to move the proceeds earned from these schemes. More specifically, virtual currency exchangers have been used as unlicensed or unregistered MVTS providers to exchange criminal proceeds in the form of virtual currency to fiat currency. In 2015, FATF issued guidance to demonstrate how specific FATF Recommendations should apply to convertible virtual currency exchangers in the context of VCPPS, and identify AML/CFT

⁷ The processing of responses to direct mail is often conducted by a third party hired to perform various services, which may include processing payments, compiling product orders, correcting recipient addresses, processing returned mail, providing lockbox services, and depositing funds and the associated data processing for each of these services. Caging is a shorthand term for the service bundle.

measures that could be required⁸. Case studies have nonetheless shown that complicit virtual currency exchangers, which have been intentionally created, structured, and openly promoted as criminal business ventures, are being used.

Digital payment systems can also facilitate other crimes, including computer hacking and ransomware, fraud, identity theft, tax refund fraud schemes, public corruption and drug trafficking. Complicit virtual currency providers also utilise shell companies and affiliate entities that cater to an online, worldwide customer base to electronically transfer fiat currency into, and out of, these exchangers (effectively serving as electronic money mules). Users of these complicit services have openly and explicitly discussed criminal activity on these providers' chat functions, and their customer service representatives have offered advice on how to process and access money obtained from illegal drug sales on Dark Web markets.

Box 25. Complicit Virtual Currency Exchanger

On July 26, 2017, a grand jury in the Northern District of California indicted a Russian national and an organisation that he allegedly operated, BTC-e, for operating an unlicensed money services business, ML and related crimes. The indictment alleges that BTC-e was an international ML scheme that allegedly catered to criminals, particularly cyber criminals, and evolved into one of the principal means by which criminals around the world laundered the proceeds of their illicit activity. The indictment alleges that one of the operators of BTC-e who directed and supervised BTC-e's operations and finances, along with others, intentionally created, structured, operated and openly promoted BTC-e as a criminal business venture, developing a customer base for BTC-e that was heavily reliant on criminals. BTC-e was also one of the world's largest and most widely used digital currency exchangers. The investigation has revealed that BTC-e received more than USD 4 billion worth of virtual currency over the course of its operations. In addition to the indictment charging BTC-e and one of its operators with the violations noted above, FinCEN – in close co-ordination with the Justice Department – assessed a USD 110 million civil money penalty against BTC-e for wilfully violating US. anti-money-laundering laws.

Source: United States

SECTION VII: CONCLUDING REMARKS

This threat report addresses criminal actors, including organised crime groups that specialise in the provision of professional money laundering services and complicit actors who are knowingly involved, or are deliberately negligent, in the laundering process. A number of characteristics have been identified, based on an extensive case review (including, the role and functions of PMLs; the business models used; and relevant typologies and schemes). A non-public version of the report is available to Members of the FATF and the FATF Global Network upon request. This non-

⁸ FATF, 2015.

public version includes further information, such as practical recommendations for the detection, investigation, prosecution and prevention of ML.

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Professional Money Laundering

Professional money launderers (PMLs) provide services to criminals and organised criminal groups by laundering the proceeds of their illegal activities. They may provide the entire infrastructure for complex ML schemes (e.g. a ‘full service’) or construct a unique scheme tailored to the specific needs of a client that wishes to launder the proceeds of crime. This report identifies the specialist skill sets that PMLs offer their clients in order to hide or move their proceeds, and provides a detailed explanation of the roles performed by PMLs to enable authorities to identify and understand how they operate. This report also provides recent examples of financial enterprises that have been acquired by criminal enterprises or co-opted to facilitate ML.

This report aims to assist authorities to target PMLs, as well as the structures that they utilise to launder funds, in order to disrupt and dismantle the groups that are involved in proceeds-generating illicit activity so that crime does not pay.



**Asia/Pacific Group
on Money Laundering**

ASIA/PACIFIC GROUP ON MONEY
LAUNDERING

APG Typology Report on Trade Based Money Laundering

**Adopted by APG Members at the 15th Annual
Meeting**

20 July 2012

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EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

1. Trade Based Money Laundering (TBML) was recognized by the Financial Action Task Force (FATF) in its landmark 2006 study as one of the three main methods by which criminal organizations and terrorist financiers move money for the purpose of disguising its origins and integrating it back into the formal economy. This method of money laundering (ML) is based upon abuse of trade transactions and their financing. The 2006 FATF Study highlighted the increasing attractiveness of TBML as a method for laundering funds, as controls on laundering of funds through misuse of the financial system (both formal and alternate) and through physical movement of cash (cash smuggling) become tighter.
2. In recent years APG members have continued to highlight vulnerabilities for TBML, but very few cases investigations or prosecutions appear to have been undertaken in the Asia/Pacific region and very few case studies had been shared.
3. The APG's TBML study aims to build on the existing studies, in particular those of the FATF, in order to study the extent of the prevalence of TBML and highlight current methods, techniques and modus operandi for TBML as well as to identify 'red flags' to detect and respond to TBML.
4. In determining the magnitude of TBML, the study considered why so few cases of TBML have been detected since the FATF's 2006 study. The Paper has sought to clarify and furnish explanations for terms and processes of 'trade finance' which are comprehensible to Money Laundering (ML) investigators.
5. This Paper has focused on TBML occurring in the course of international trade in goods. The study does not include in its scope capital flight, tax evasion, trade in services and domestic trade. The features of the dynamic environment that distinguish TBML from other forms of ML are its occurrence through intermingling of the trade sector with the trade finance sector in cross- border transactions. The foreign exchange market and the long supply chain make international trade particularly vulnerable to TBML.
6. The study included circulation of a questionnaire to APG and FATF members seeking statistically significant indicators. The Paper sets out a number of Case Studies to illustrate trends of TBML. Simplified explanations of the terms and processes of trade finance have been attempted through interaction with the private sector. A brief review of the literature on the subject generated by the FATF, FSRBs and other authors has been made.
7. There is a growing concern on how the rapid growth in the global economy has made international trade an increasingly attractive avenue to move illicit funds through financial transactions associated with the trade in goods and services. TBML is a complex phenomenon since its constituent elements cut across not only sectoral boundaries but also national borders. The dynamic environment of international trade allows TBML to take multiple forms.

KEY FINDINGS

8. Statistical analysis has been conducted on the basis of responses received on 64 questions from 19 jurisdictions and 1 organisation.
9. Few TBML cases have been reported. The extent of TBML in the region was not able to be accurately estimated in this study. However, during the course of the study it has become evident that TBML is a problem for many of the participating jurisdictions and has serious significance as an avenue to launder proceeds of crime.
10. There is lack of awareness and training on TBML among the jurisdictions. Training for those responsible for detection and investigation of TBML as well as to those who collect trade data and handle trade finance is critical to raise their awareness about TBML and build capacity to identify TBML.
11. Most jurisdictions do not distinguish TBML from other forms of ML. A major obstacle in devising strategies to tackle TBML has been the lack of reliable statistics relating to it. There is presently no standardization with regard to the practice of collection and maintenance of data on TBML. Trade related data is collected to serve purposes other than those of detecting TBML.
12. The lack of TBML investigators and absence of systems capable of cross-referencing trade and trade finance data are significant limitations. In most of the reporting jurisdictions customs authorities or equivalent collect and manage trade data but do not have the authority to conduct ML investigation.
13. Over 50% of the reporting jurisdictions indicate referrals from other agencies which trigger TBML investigations. Again, over 50% of the reporting jurisdictions seek information from international counterparts. However there are impediments in domestic coordination and international cooperation among the competent authorities. The main impediments which have been identified are requirement of maintaining confidentiality, delays in response and conveying of information with restrictions.
14. Reporting jurisdictions have listed a large number of patterns and red flags which this Paper has categorised in five broad groups viz. Trade Finance, Jurisdictions, Goods, Corporate Structure and Predicate Offences. The last four categories have been dealt with in the past papers under the broad category of trade. With regard to trade finance the important red flags relate to methods of payment and letters of credit. Existence of duty free zones and prevalence of high duty structure can make jurisdictions sensitive to TBML. The discrepancy about description, quality, quantity and value of the goods which are traded can be important red flags. Front or shell companies are often used as corporate structures to facilitate TBML. Tax evasion and customs offences are important predicate offences for TBML.
15. The trade finance products identified in this study reveal a menu of choices that are available to genuine traders to facilitate trade. Exporters and importers enter into an agreement to trade more often than not by way of cash payment or through some more

complex form of trade financing. Such trade finance products include bills of exchange, counter trade, letters of credit and open account facilities. A range of open account facilities may encompass factoring, forfaiting and other forms of credit. While the trade finance products were innovated to reduce trade transaction costs, their accessibility have also made them vulnerable to TBML abuse. Thus the trade in commodity has become as good as means of movement of cash and of transfer of funds to indulge in laundering.

16. Financial sector representatives indicate a trend toward the use of open account financing in trade. This has implications for detecting the abuse of trade finance for ML.
17. The case studies included in the Paper, besides identifying the elements of trade that facilitate TBML, also bring out the mechanisms of trade finance used in TBML. One case study highlights the financing of different segments of trade through diverse mechanisms of trade finance that can introduce risks in the trade transactions which are difficult to assess by financial institutions. The mechanisms of financing trade through factoring and through disbursement of trade credit to overseas suppliers are fraught with risks for financial institutions unless due diligence is exercised over the overseas trading partner, are brought out in another case study. Another case study shows how the operations of ‘exchange houses’ owned and controlled by criminals coupled with ‘compromised’ working of a bank make trade finance mechanisms means for indulging in TBML. There are other case studies which demonstrate the use of alternative remittance systems and of corporate structures to facilitate TBML. A final case study shows multiple forms of international trade and various mechanisms of trade finance which give inherent flexibility to criminals to adopt those forms and types which suit the demands of a situation.
18. The 2006 FATF Paper on TBML focused on trade based techniques used in TBML, which have been mentioned as over/under invoicing of goods, multiple invoicing of goods, over/under shipments of goods and false description of goods. These techniques need to combine with techniques which abuse trade finance mechanism, for TBML to occur. Four of these techniques have been identified in this paper as cash inflow based payment, third party payment, segmental modes of payment and alternative remittance payment.

POLICY OBSERVATIONS

19. Any strategy to prevent and combat TBML needs to be based on dismantling TBML structures while allowing genuine trade to occur unfettered. An emphasis on inter-agency coordination and international cooperation, needs to be adopted by policy-makers. A comprehensive strategy which takes into account sectoral peculiarities, agency specialization and jurisdictional frameworks can only address the challenges in tackling TBML.
20. There is a need to have common formatting for recording and maintaining trade-relevant statistics so that data sets can be analysed to identify trends related to TBML. Cross-referencing of data relating to trade and trade finance can be the starting point for adopting a risk based approach to identifying TBML. There is an acute need to correlate trade data

with the foreign exchange data to detect TBML and identify cases where value is in the form of goods without corresponding outgo of foreign exchange as payment.

21. Multiple agencies are involved either directly or indirectly in combating TBML. Levels of specialization in mandated roles to combat TBML varies. However, the strategy to prevent and combat TBML requires expertise created through the combination of all such authorities. One way-forward to combine the respective competencies of relevant authorities for combating TBML is to form domestic task-forces. Task-forces focused on TBML investigations will need to have the ability to utilize the expertise of each agency without compromising its functional skills.
22. There is an urgent need to strengthen the existing bilateral arrangements like Trade Transparency Units (TTUs) and to build multilateral mechanisms for international cooperation. The bilateral arrangements must ensure prompt exchange of information with regular follow-ups which should result in more efficient delivery. The multilateral mechanisms may entail equal commitment of all trading jurisdictions for coordination in matters relating to TBML.
23. TBML focused training is an absolute necessity for the anti-TBML strategy to succeed. Customs, ML investigating LEA, FIU, Tax Authorities and Regulators have all identified a pressing need for more focused training so that their personnel can have an adequate knowledge base to detect, prevent and combat TBML. The sharper focus on TBML in existing training programs can be brought about by incorporating specific topics which relate to TBML. The case studies, the red flags and typology papers on TBML may be disseminated during such programs. As trade essentially involves multiple jurisdictions, there is a need for Law Enforcement Officers to understand the legal and procedural aspects of other jurisdictions. Training should be aimed at making use of trade data analysis as well as cross referencing trade data with trade finance data and understanding any useful tools developed to identify trade anomalies which may lead to investigation and prosecution of TBML cases. Inter-linkages of tax frauds and customs violations with TBML also need to be explained.

CHAPTER I - SCOPE & COVERAGE

INTRODUCTION

24. The Asia/Pacific Group on Money Laundering (APG) produces regional typologies studies of money laundering (ML) and terrorist financing (TF) in the Asia/Pacific region. This is done to share information and support a better understanding of ML and TF methods, techniques and trends in the region.
25. Typologies of ML and TF allow Governments and the private sector to understand the nature of the ML and TF environment and design effective AML/CFT strategies to address threats. Typologies help APG members to implement effective strategies to investigate and prosecute ML and TF, as well as design and implement effective preventative measures.
26. Trade Based Money Laundering (TBML) has been recognized by the Financial Action Task Force (FATF) in its landmark study published in 2006, as one of the three main methods by which criminal organizations and terrorist financiers move money for the purpose of disguising its origins and integrating it back into the formal economy. This method of ML is based upon abuse of trade transactions and their financing. The FATF Study 2006 highlighted the increasing attractiveness of TBML as a method for laundering funds, compared with misuse of the financial system (both formal and alternate) and through physical movement of cash (cash smuggling).
27. The revision of FATF standards undertaken in 2003 entailed stricter controls on the financial system and on cash couriers, which may have had an unintended consequence of leaving the trade finance sector more vulnerable to ML and TF. The increasing volume, speed and value of global trade and the complexities inherent in trade transactions and in its financing arrangements coupled with limited awareness and understanding of how such trade can be abused, have made TBML an important avenue for moving illicit funds.

AIMS OF THE STUDY

28. The APG Annual Meeting in Kochi, India in July 2011 resolved to take-up further study on TBML as an APG Typology Study. The Study commenced with the following aims:
 - i) to build on the existing studies and in particular that of FATF published in 2006;
 - ii) to study the extent of the prevalence of TBML;
 - iii) to highlight current methods, techniques and modus operandi for TBML so as to short list 'red flags' to detect and respond to TBML; and
 - iv) to clarify and furnish explanations for terms and processes of 'trade finance' which are comprehensible to ML investigators.

SCOPE OF THE STUDY

29. It is useful to consider the fundamental elements of trade in goods that this study will consider when discussing TBML. Conceptually, trade can be broken into various elements which may be overlapping:
- arrangements to trade goods
 - financial steps to facilitate the trade (financing, insurance, etc.)
 - movement of goods
 - reconciliation or settlement of financial accounts
30. TBML was defined by the FATF in 2006 as ‘the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimize their illicit origins.’ The FATF Paper on Best Practices (2008) broadened the definition by stating, “TBML and terrorist financing (TBML/FT) refer to the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimise their illegal origin or finance their activities.” Such broadening of the definition, allows for illegal activities such as terrorist financing to be covered within the scope of TBML.
31. The FATF Study of 2006 excludes the coverage of the movement of money for tax avoidance, evasion and capital flight, on the grounds that such movement of funds usually involves transfer of legitimately earned funds across borders while TBML involves the ‘proceeds of’ or ‘instruments of’ crime. However, the FATF 2008, Paper on Best Practices does cover within the definition of TBML, the movement of licit funds for the purpose of illegal activities such as terrorist financing. This broadening of the definition, coupled with the intermingling of licit and illicit funds imply that the abuse of capital flight and the movement of funds for tax avoidance / evasion are within the scope of TBML.
32. This paper excludes consideration of domestic trade in its study of TBML. While the FATF definitions of TBML do not exclude domestic trade from their ambit, the framework chosen by this and other papers leaves domestic trade out of scope. This is not to deny that TBML can occur through domestic trade, however given that domestic trade is less regulated and large in terms of number of transactions, the time resource available to compile this Paper and the amount of ‘noise’ that exists in the domestic market does not allow for its coverage.
33. Whilst the definition of TBML being considered includes international trade in ‘services’ which has also been addressed in previous FATF Papers, trade in services and other intangibles is also out of scope of this Paper. The lack of standardization of the definition of ‘services’ and difficulties in estimating the ‘fair value’ of their provision, will not allow for its meaningful treatment in the present study. The project team believes that separate studies devoted to trade in services and other intangibles, keeping their peculiarities in view, are called for. The implications of the capital flight and the movement of funds for tax evasion for TBML need to be examined separately. Mechanisms like transfer pricing are still largely in the domain of taxation. Therefore the present Paper while adopting the

definition of TBML given by the Best Practices Paper 2008 of FATF does not include in its scope capital flight, tax evasion, trade in services and domestic trade.

34. The rapid expansion of global trade has increased the possibilities for TBML. Trade is the ‘engine of growth’ and ensures optimal use of resources. Thus the need to have a ‘free and fair’ trade regime has been emphasized. The dilemma which is faced by policy makers is the requirement to balance the needs of a free, fair and predictable trade regime with the needs for regulation of trade so as to prevent its abuse. Total Global Merchandise Trade stood in 2010 at US \$ 30.729 Trillion {US \$ 15.237 Trillion exports + US \$ 15.492 Trillion imports}¹ which indicates the potential for absorption and movement of funds of criminal origin through international trade and the need to study TBML.
35. One common thread running through studies of the FATF, of FATF-style regional bodies (FSRBs) such as the APG, and other literature is acknowledgement of the lack of awareness of TBML. Such studies have consistently highlighted difficulties in detecting TBML cases. A lack of understanding of those features of TBML that are distinct from other forms of ML is viewed as one reason for a lack of TBML cases. While acknowledging the commonalities between TBML and other forms of ML, attempts have been made in this Paper to identify a few distinguishing features of TBML. Recognition of such features may help develop better ‘red flags’, support increased awareness and lead to more detections.
36. Distinguishing features of the dynamic environment for TBML include:
 - a) TBML using international trade occurs over more than one jurisdiction, while other forms of ML may be only of a singular jurisdiction. **Cross border transactions** provide opportunities to take advantage of differences in legal systems of various jurisdictions. A jurisdiction may have less restrictive Customs checks (Free Trade Zones) and less stringent AML set-up than trading partner. The high volume, regularity and speed of international trade increase vulnerabilities.
 - b) TBML necessarily requires **intermingling of the trade sector with the finance sector**. Criminals take advantage of vulnerabilities of both the sectors. Merely having an AML regime for the finance sector becomes inadequate unless such a regime effectively covers the corresponding trade sector. Moreover, cross-referencing of trade-data, with that of trade finance becomes essential when investigating TBML.
 - c) International trade is denominated in terms of internationally acceptable currencies. Trade becomes exposed to the **vulnerabilities of the foreign exchange market**. The conversion of currency at market determined exchange rates enhance the scope for criminals to launder the proceeds of or instruments of crime.
 - d) The **long supply chain** necessary for international trade make the trade more vulnerable to TBML. This chain of manufacturer, trader, consigner, consignee, notifying party, financier,

¹ Source: (<http://stat.wto.org/StatisticalProgram/WSDBViewData.aspx?Language=E>

shipper, insurer and freight forwarder broaden the scope for abuse of the system by the criminals because of all the vulnerabilities that exist.

METHODOLOGY

37. The Methodology which has been adopted in this Paper has the following important elements:-

- a) A Questionnaire was prepared and circulated among the jurisdictions for completion by relevant agencies (see Annex B). A statistical profile was drawn from responses to the questionnaire. However responses were received from only limited number of jurisdictions which has resulted in making the size of the sample small. Results based on a sample of small size may not be regarded as statistically significant. Nevertheless, the statistical responses have brought the project team to the conclusion that there are commonalities amongst various jurisdictions with regard to the challenges in understanding and tackling TBML.
- b) Case studies were sought as part of the questionnaire. APG members' Typology Status Reports from previous year were examined for cases and other reference materials. A limited number of case studies were reported. Those case studies have been used to appreciate the recent trends of the modus-operandi and techniques adopted for TBML as well as to develop 'red flags'.
- c) Terms and 'processes of trade finance' have been examined and simplified explanations have been attempted so as to make these comprehensible for investigators. This is considered an important feature of this study as TBML is a complex subject and lawmakers and investigators alike find it difficult to understand the terms and processes of international trade and its financing arrangements. In this regard the Project Team interacted with the private sector.
- d) A brief review of some of the literature on the subject has been made. Existing studies on the subject made by the FATF, FSRBs and other organizations have been examined in an attempt to take this body of research forward.

FRAMEWORK

38. Chapter II of this paper considers issues categorized into four areas of concern.

- (i) What is the extent of TBML in specific jurisdictions, regions and across the globe?
- (ii) What should be the roles, responsibilities of investigating agencies and other allied agencies to tackle TBML?
- (iii) What are the best practices (preventative measures) to effectively deal with TBML? and
- (iv) What are those features of TBML which can make it possible to discern it from other forms of ML?

39. The inferences drawn from the statistical analysis of the responses received to the Questionnaire attempt to provide answers to these concerns. The statistical analysis made in Chapter-II has also looked at the extent of the prevalence of TBML.
40. Chapter III of this Paper aims to develop a simplified explanation of terms and processes of trade finance so as to make these comprehensible for investigators. Improved understanding of concepts, terms and processes of trade finance should assist AML investigators to detect TBML cases by cross-referencing the leads from trade transactions with those of trade finance.
41. Chapter IV of this Paper illustrates the techniques of TBML through case studies. The Chapter elucidates how the abuse of trade system combines with that of trade finance for TBML to occur. Techniques of Trade Finance abuse have been identified. Chapter-V of this Paper is devoted to drawing of conclusions and suggesting way forward.

REVIEW OF EXISTING STUDIES

42. In order to better understand the complex subject of TBML, this Paper seeks to review the existing literature on TBML. This includes studies by published by the FATF, FATF-style regional bodies (FSRBs) and a range of studies from intergovernmental organisations, jurisdictions, the academic sector and other bodies.

Financial Action Task Force (FATF) Studies

***Trade Based Money Laundering (2006)*²**

43. The FATF TBML study of 2006 set out a number of key findings and recommendations:-

 - a) TBML is a complex and increasingly important channel of ML.
 - b) Techniques of TBML adopted by criminals vary from simple to complex. Simple techniques include ‘over/under invoicing’ of goods, multiple invoicing of goods, ‘over/under shipments’ of goods and falsely described goods. Combinations of several simple techniques have been regarded as complex.
 - c) Analysis of trade data and its international sharing are useful tools for identifying trade anomalies and detection of TBML. Since international trade leaves behind documentation, the anomalies noticed during data analysis may lead the investigator to documentary evidence. Lack of structured and regular exchange of information related to trade and trade finance among relevant agencies.
 - d) The lack of resources and training further constrain Customs, LEA, FIU and Tax Authorities to develop effective AML methodologies against TBML.

² <http://www.fatf-gafi.org/dataoecd/60/25/37038272.pdf>

44. The FATF 2006 study identified and recommended three main areas to be focused by Authorities to increase effectiveness in combating TBML:
- i) Building better awareness among the agencies responsible for detection, investigation and prosecution of offenders involved in TBML. These agencies have expressed strong need for training.
 - ii) Strengthening current measures so that there is extensive use of the available material in the form of case studies and red flag indicators of TBML. The aspects of effective domestic cooperation and sharing of information among Law Enforcement Agencies and Regulators have also been impressed upon.
 - iii) Improving international cooperation so that it can act as a trigger for detection of TBML cases. In this regard the setting up of physical and legal infrastructure has been emphasized.

Best Practices Paper on Trade Based Money Laundering (2008)³

45. The FATF Best Practices Paper on TBML (2008) has provided important guidelines for detection and investigation of cases of TBML. The objective of the Best Practices Paper was to improve the ability of competent authorities to collect and effectively utilise trade data, both domestically and internationally, for the purpose of detecting and investigating ML and TF through the trade system. It was also aimed at FATF continuing to explore vulnerabilities in the trade system, including those related to trade finance, with a view to identifying other measures that could be considered in combating illicit use of the trade system.
46. The best practices described include:
- a) Capacity building and increased awareness of TBML to be achieved by enhancing the focus on TBML in training programs. Developing capacity to identify anomalies in data collected for trade transactions and in trade finance.
 - b) Familiarize staff of competent authorities with typologies & ‘red flags’ and include these in their training materials & internal guidance manuals. A Risk based approach with target orientation has been strongly recommended.
 - c) Cooperation among domestic competent authorities to be developed so as to facilitate coordination between authorities responsible for collecting and analysing trade data and the authorities responsible for investigating ML and TF. For this purpose, jurisdictions should identify where trade data and trade finance data are being stored and managed. Often such data is dispersed over more than one agency.

³ <http://www.fatf-gafi.org/media/fatf/documents/recommendations/BPP%20Trade%20Based%20Money%20Laundering%202012%20COVER.pdf>

- d) Investigation Agencies should have timely and clear access to trade data and trade finance databases, through secure networks and Memoranda of Understanding.
 - e) Practical obstacles in the area of domestic cooperation and information sharing to combat TBML/FT need to be identified and addressed. Specific best practices involving information sharing between domestic agencies and FIU were also suggested. It has been recommended that FIU should be able to obtain information from agencies collecting trade data viz. Customs and Trade Authorities.
 - f) Encourage international cooperation to provide the widest possible range of mutual legal assistance in TBML/FT investigations and prosecutions. Clear and effective mechanisms and gateways need to be established to facilitate trade data.
47. The Best Practices Paper has recommended safeguards relating to maintenance of data protection and privacy as well as to ensure competitive neutrality for legitimate trading activities which is also supported by the project team.

Money Laundering Vulnerabilities of Free Trade Zones (2010)⁴

- 48. The 2010 FATF study on Free Trade Zones (FTZs) has significant cross-over with earlier studies on TBML and includes three case studies of TBML. One of these cases relates to TBML for terrorist financing (Hezbollah).
- 49. Businesses located in FTZs utilise international trade for a majority of transactions. FTZs are designated areas within jurisdictions in which incentives are offered to support the development of exports, foreign direct investment (FDI), and local employment. These incentives include exemptions from duty and taxes, simplified administrative procedures, and the duty free importation of raw materials, machinery, parts and equipment. In addition to boosting economic opportunity, these incentives can result in a reduction in finance and trade controls and enforcement, creating opportunities for ML and TF.
- 50. The lack of AML/CFT safeguards poses a particular vulnerability in FTZs. Cases in the FATF report highlight systematic weaknesses that make FTZs vulnerable to abuse including relaxed oversight, lack of transparency, absence of trade data and systems integration.
- 51. The study finds that FTZs may facilitate the TBML and related illicit activity. The misuse of FTZs impacts every jurisdiction in the world, regardless of whether or not a jurisdiction has FTZs.

FATF Typologies on Proliferation Financing (2008)

- 52. The June 2008 FATF Typologies Paper on Financing the Proliferation of Weapons of Mass Destruction⁵ did not address TBML directly, but did include an annex on trade

⁴ <http://www.fatf-afi.org/media/fatf/documents/reports/ML%20vulnerabilities%20of%20Free%20Trade%20Zones.pdf>

documentation, including those relevant to trade finance. These descriptions have been included as part of the Chapter on Trade Finance.

EAG

53. The Eurasian Group (EAG) on Combating ML and TF has published two reports relating to TBML. These are as follows:
- (i) ***EAG Working Group on Typologies Study Report on "International Trade Based Money Laundering" (December, 2009)***⁶
54. The EAG Study Report on International TBML was based on the generalized findings of national studies conducted by select EAG members. The study considered the use of foreign trade transactions to launder proceeds and instruments of crime. The EAG study focused on identifying the legal aspects of business regulation that affect the development of various mechanisms using both international economic and especially, trade-based, activities for ML. An attempt was made to analyse the legal standards of national legislations governing the conduct and control of foreign trade-based transactions.
55. This Study highlighted instruments, mechanisms and corporate structures, used for TBML. Instruments such as fictitious export/import transactions and false contracts were identified. Common mechanisms used for the purpose have been found as non-declaration / mis-declaration of goods and false certificate of origin. Corporate structures involved in the process comprise three groups of entities viz. transient firms, off-shore companies and illegal financial services providers.
- (ii) ***EAG Typology Report on Risks of Money Laundering in Foreign Trade Transactions (December, 2010)***⁷
56. The EAG Report on the Risks of Money Laundering in Foreign Trade Transactions aimed to develop a risk assessment methodology to prevent and combat use of foreign trade transactions in ML schemes.
57. The main features of the study were: the identification of legal aspects in Foreign Trade Regulation; efficient assessment of the risk based approach in national AML strategies; and, the analysis of monitoring mechanisms adopted by financial institutions. The study attempted to classify ML risks in foreign trade transactions by determining the share therein of risk companies, risk countries and risk commodities. All competent authorities, including, policy makers, customs, taxation authorities, central bank and financial institutions were called to adopt risk assessment approach.

⁵ <http://www.fatf-gafi.org/media/fatf/documents/reports/Typologies%20Report%20on%20Proliferation%20Financing.pdf>

⁶ http://www.eurasiangroup.org/typology_reports.php

⁷ http://www.eurasiangroup.org/ru/news/WGTYP_2010_6_eng.pdf

APG

58. The 2008 APG Typologies Report⁸ collected case studies from across the Asia/Pacific region and included case studies on TBML and related cases. Case studies on alternative remittance services, shell companies, off-shore banks and promissory notes are of significance to the current research.
59. The 2012 APG Typologies Report includes a number of TBML case studies from across the Asia/Pacific region.

The Wolfsberg Group

60. The Wolfsberg Group is an association of eleven global banks formed in 2000 to develop financial services industry standards. In 2009 the Wolfsberg Group published a paper entitled The Wolfsberg Trade Finance Principles⁹, which aimed to contribute to industry efforts to define standards for the control of the AML/CFT risks associated with trade finance activities. The Wolfsberg Group published these Principles on the role of Financial Institutions (FIs) in relation to the management of processes: 1) To address the risks of ML and terrorist financing through certain trade finance products, and 2) To aid compliance with international and national sanctions, including the Non Proliferation of Weapons of Mass Destruction requirements of the United Nations.
61. The paper addresses the mechanisms used for the finance of the movement of goods or services across international boundaries. In particular, the paper provides detailed, practical guidance on the types of controls that may be applied to letters of credit (LCs); documentary bills for collection (BCs); and sanctions, including non proliferation, weapons of mass destruction and dual use goods (NP WMD)
62. In 2011 an expanded version of the paper was published¹⁰. This version provides additional AML guidance in relation to guarantees (Gtees); standby letters of credit (SBLCs); and open account trade transactions. It is noted:

“Despite the fact that historically trade finance has not been viewed as high risk it has always been recognised that international trade and the processes and systems that support it are vulnerable to abuse for the purposes of ML and terrorist financing. In recent years, however, the focus on these risks has increased for a variety of reasons, including the dramatic growth in world trade. In addition, the fact that controls introduced by FIs in response to the more traditional ML techniques have become more robust means that other methods to transmit funds, including the use of trade finance products, may become more attractive to criminals.” (2011: 3)

63. The Wolfsberg Group noted that it is committed to the application of appropriate systems and controls in respect of trade finance products to mitigate these risks. It does not however

⁸ http://www.apgml.org/documents/docs/6/APG_2008_Typologies_Rpt_July08.pdf

⁹ [http://www.wolfsberg-principles.com/pdf/Wolfsberg_Trade_Principles_Paper_I_\(2009\).pdf](http://www.wolfsberg-principles.com/pdf/Wolfsberg_Trade_Principles_Paper_I_(2009).pdf)

¹⁰ [http://www.wolfsberg-principles.com/pdf/Wolfsberg_Trade_Principles_Paper_II_\(2011\).pdf](http://www.wolfsberg-principles.com/pdf/Wolfsberg_Trade_Principles_Paper_II_(2011).pdf)

believe that currently there is sufficient evidence to support an assessment of this area as high risk for AML/Sanctions purposes. Despite this, the Wolfsberg Group calls for on-going cooperation between stakeholders to counter the threat of ML in the trade finance area.

United Nations Office of Drugs and Crime (UNODC)

Risk of Money Laundering through Financial Instruments, Users and Employees of Financial Institutions (2010)¹¹

64. The UNODC Risk of Money Laundering through Financial Instruments, Users and Employees of Financial Institutions (2010 English version) was produced to address the need of the justice sector to improve their economic, financial and accounting preparation in order to investigate, prosecute and adjudicate ML cases. The report does not specifically address TBML, but contains a brief description of various financial instruments, including a number of trade instruments, as well as their underlying documentation and red flags (451 in total).
65. Chapter 8 deals with Foreign Trade Business. It is noted that “Payments resulting from foreign trade business, understood to be the export or import of goods or services, can be one of the financial instruments at the highest risk for ML operations.” (2010: 113). Documents of interest (e.g. the import or export declaration or form, the interbank transfer of funds, and the declaration or form for registering the exchange operation) are identified. Warning signs regarding the transfer of funds resulting from foreign trade are also listed.

United States

66. The Financial Crimes Enforcement Network (FinCEN) issued an advisory in 2010¹² to inform and assist the financial industry in reporting suspected instances of TBML. This advisory contained examples of ‘red flags’ based on activity observed in Suspicious Activity Reports (SARs) that may indicate TBML. Financial institutions were advised to take appropriate measures to mitigate the risks of analogous activity occurring globally.
67. It was concluded in that advisory that no one activity by itself is a clear indication of TBML. Due to some similarities with legitimate financial activities, financial institutions should evaluate indicators of potential trade-based money laundering in combination with other ‘red flags’ and expected transaction activity for its customer before making determinations of suspicion. Additional investigation and analysis may be necessary to determine if the activity is suspicious, based on information available to the financial institution.

¹¹ <http://www.unrol.org/doc.aspx?d=3041>

¹² http://www.fincen.gov/statutes_regs/guidance/pdf/fin-2010-a001.pdf

Journal Articles

Delston R S & Walls SC (2009) Reaching Beyond Banks: How to Target Trade-Based Money Laundering and Terrorist Financing Outside The Financial Sector.

68. Delston and Walls in their publication (Delston R S & Walls SC 2009) *Reaching Beyond Banks: How to Target Trade-Based Money Laundering and Terrorist Financing Outside The Financial Sector*. Case Western Reserve Journal of International Law 41 (8): 85–118) have stated that AML/CFT measures have succeeded in restricting the two traditional avenues of ML, namely, the abuse of financial intermediaries and the physical movement of money across borders. Consequently, international criminal and terrorist organizations have turned to TBML to conceal and legitimize their funds, as this is a channel that remains relatively untouched by AML/CFT efforts internationally.
69. The authors noted the FATF's focus on TBML due to ML and TF risks as well as financing of the proliferation of weapons of mass destruction (WMDs). The paper proposed a far-reaching solution—that those in the international supply chain be required by law to adopt AML/CFT safeguards to protect their businesses, including filing suspicious activity reports, identifying their customers, and designating an AML/CFT compliance officer.
70. Delston and Walls (2009), argued that there needs to be greater harmonisation between the FATF Best Practices Paper for combating TBML and the 2003 FATF Recommendations calling for traders to adopt CDD, KYC and STR reporting protocols in line with obligations on financial institutions and DNFBPs. Their proposals appear to be at odds with the recommendations put forward in the FATF *Best Practices Paper*, which cautioned against undue regulatory burdens upon legitimate trading activities. However, Delston & Walls warn that ‘companies may ignore their TBML risk only at their peril’ (Delston & Walls 2009: 118) and suggest that businesses may voluntarily go beyond FATF’s Best Practices to safeguard themselves against TBML threats.

Zdanowicz JS 2009, Trade-Based Money Laundering and Terrorist Financing

71. Zdanowicz (Zdanowicz JS 2009, *Trade-Based Money Laundering and Terrorist Financing*. Review of Law and Economics 5(2): 858–878) contributes to the literature on TBML and terrorist financing by providing an analysis of previously unused statistical techniques and methodologies as a means of monitoring, detecting and prosecuting ML activities. Zdanowicz describes how new statistical profiling methodologies that evaluate transactions contained in a jurisdiction’s international trade database can mitigate the risks associated with TBML.
72. Zdanowicz discusses the application of four new TBML profiling techniques which focus on jurisdiction, customs district, product, and transaction price risk characteristics. The paper highlights recent developments which reveal a new focus on TBML and TF.
 1. Trade Transparency Units:
 2. FATF: Trade-Based Money Laundering Report: In June 2006

3. FFIEC Bank Secrecy Act Anti-Money Laundering Examination Manual

Brown HA 2009, Free Trade Zones: Haven for Money Laundering and Terrorist Financing?

73. Brown has raised several possible vulnerabilities associated with the area of FTZs (Brown HA 2009, Free Trade Zones: Haven for Money Laundering and Terrorist Financing? ACAMS Today January: 10–12) that include:

- i) Possible lack of regulations or lack of enforcement of regulations within free trade zones;
- ii) use of cash or nonfinancial instruments, which are usually high risk, as the primary forms of payment that occur within these zones;
- iii) lack of means to implement, enforce or create regulations needed within free trade zones;
- iv) difficulties in determining the primary owner of the goods or the point of origin of the shipments due to the transference of many shipments into and out of multiple free trade zones around the world;
- v) due to the beneficial tax incentives offered within these areas, and the decrease or lack of tax revenue gathered by customs officials, there is little incentive to enforce or implement regulations and oversee trade;
- vi) the lack of automation and an accurate method of recording shipments and items manufactured or received within many free trade zones, causing the loss of a paper trail that can accurately verify the true owner of the goods;
- vii) possible zone manipulation to aid in trade-based money laundering, including over-and-under invoicing, *hawalas* and Black Market Peso Exchange, among other trade based schemes.

74. Various best practices and recommendations, as mentioned in this paper could increase the security, regulations and enforcement within these areas that currently do not have the measures in place to monitor or detect illegal activities.

McSkimming S 2010, Trade Based Money Laundering: Responding to an Emerging Threat.

75. McSkimming (McSkimming S 2010, Trade Based Money Laundering: Responding to an Emerging Threat. Deakin Law Review 15(1): 37–63) observes that while little has been done to prevent trade-based financial crime, there is also little empirical evidence of its ill effect. Further, there has been little consideration as to whether systematic monitoring of the trade system would be cost-effective, relative to the number of offenders detected and the harm prevented. Without such analysis, it is almost impossible to reach a measured and balanced view on appropriate policy settings.

76. When considering typologies of over and under invoicing, McSkimming briefly considers issues of transfer pricing manipulation. A transfer price is the price paid for an exchange of goods and services between related affiliates of the same transnational corporation. This may be a parent firm trading with subsidiaries or between subsidiaries of the same firm. Transfer pricing refers to the method transnational corporations adopt for the setting and adjusting prices of goods or services from one associate of the entity to another associate within that same entity. Corporate subsidiaries in different countries must adjust prices

when one subsidiary transfers goods or services to a subsidiary operating in a different country. It is estimated that trade between related transnational corporations affiliates account for 60% cent of global trade, which represents significant risks for transfer mispricing.¹³ Tax authorities require that an ‘arm’s length principle’ should be followed in determining the open-market price. Many markets are thin and often dominated by the same multinationals and market prices are hard to determine. Transfer pricing frauds ignore the arm’s length principle and misprice transactions to allow companies to move profits to low tax jurisdictions to minimise or avoid tax.

77. McSkimming proposes that even if monitoring were to be implemented, the analytical methodologies that are currently used have major flaws. They not only rely on data that is often of poor quality, but may also be worryingly easy to circumvent. This too, raises serious questions about the effectiveness of the proposed policy responses to TBML. The difficulties associated with data monitoring also raise the spectre of a significant increase in the number of physical, and therefore costly, inspections of trade goods. Preventing TBML/TF will take more than importing AML/CFT strategies from the financial sector to the trade sector. Instead, a robust new approach to AML/CFT in the trade sector will be required.
78. The author highlights that the absence of data on TBML/TF is particularly concerning in light of the fact that TBML/TF is a credible substitute for traditional, financial system ML typologies. If offenders are able to avoid AML/CFT controls by abusing the trade system in substantial numbers, then costly regulation of the financial sector may be pointless. McSkimming notes that the larger, organised crime syndicates most able to take advantage of TBML/TF, which makes the lack of effective AML/CFT responses even more concerning.

Liao J & Acharya A 2011. Trans-shipment and Trade-Based Money Laundering

79. Liao and Acharya (Liao J & Acharya A 2011. *Trans-shipment and Trade-Based Money Laundering*. *Journal of Money Laundering Control* 14(1): 79–92) analyse reports made by international organizations and government bodies, particularly, the US, dealing with various aspects of financial crime, import/export activity, and world trade statistics, in order to identify major challenges and possible solutions to the problem.
80. The paper finds that efforts to monitor and staunch the flow of illicit money through trade would be enhanced through more widespread coverage of customs cooperation and standardization of information sharing procedures between national customs agencies. Also, measures should be taken to make free trade areas (FTZs) more transparent to regulatory scrutiny.

¹³ Prem Sikka, ‘Enterprise, culture and accountancy firms; new masters of the universe’, *Accounting, Auditing and Accountability Journal*, vol 21, no 2, 2008, p 268-295,
www.emeraldinsight.com/Insight/viewContentItem.do;jsessionid=CD97B03F94E6B0C92BDA1B4D3D

Australian Institute of Criminology

81. Sullivan and Smith (Paper: 2011 by Claire Sullivan and Evan Smith, Trade-Based Money laundering: Risks and Regulating Responses Published as Australian Institute of Criminology Reports -Research and Public Policy Series 115) contend that the formation of a regulatory framework to deal with TBML would be premature and unnecessary at this stage, as more research needs to be conducted to ascertain with greater precision the nature, risks and prevalence of TBML in Australia.
82. The Report identifies additional TBML methods besides those identified in the FATF Study 2006. The two other techniques involve:
 - (i) related party transactions; and
 - (ii) acquisition and sale of intangibles.
83. The Report further holds that the specific areas of risks increase the vulnerability of international trade to TBML. These risks are:
 - Barter trade
 - use of shell and front companies
 - trade with and through high risk jurisdictions; and
 - trade with and through free trade zones.
84. The Report recommends that future education and awareness-raising programs should usefully incorporate training materials on TBML.

CHAPTER II - STATISTICAL ANALYSIS

85. An important objective of this Paper is to build on the existing studies, particularly those of the FATF. The past studies have raised issues in four key areas:
- (i) What is the extent of TBML in specific jurisdictions, regions and across the globe?
 - (ii) What should be the roles, responsibilities of investigating agencies and other allied agencies to tackle TBML;
 - (iii) What are the best practices (preventative measures) to effectively deal with TBML ; and,
 - (iv) What are those features of TBML which can make it possible to discern it from other forms of ML?
86. To look at these four primary areas of concern, this Chapter presents a Statistical Analysis. The statistical analysis is based upon the responses received from 19 Jurisdictions and 1 Organization, to a Questionnaire circulated by the APG Secretariat. Due to the limited number of responses received from jurisdictions & organizations the sample size is not large enough to lead to any statistically significant inferences. However, these responses do add to the understanding of the issues involved in each of the four primary areas of concern and can help crystallize work done in the future on TBML.
87. The Questionnaire, comprising six parts, was designed in such a way that each part could be answered by the Agency in the best position to furnish answers in any given jurisdiction. In all, 64 questions were circulated in the Questionnaire. The Six classes of agencies which have combined to answer the Questionnaire can be classified as follows:-
- (A) Coordinating Agency; (8 questions)
 - (B) Customs; (19 questions)
 - (C) ML Investigating Law Enforcement Agency (LEA); (17 questions)
 - (D) Financial Intelligence Unit; (7 questions)
 - (E) Tax Authority; (7 questions)
 - (F) Anti Money Laundering Regulator; (6 questions)

EXTENT AND PREVALENCE OF TBML PROBLEM

88. The concern about the extent and prevalence of TBML across the globe has confronted investigators and policy-makers, as there are inherent difficulties in gauging the extent and magnitude of the problem. This Paper has highlighted a few of the difficulties which became obvious during the analysis of questionnaire responses. These difficulties may also go some way to explain why only a few cases of TBML have been reported.
89. In fact getting a sense of the magnitude of the problem has been the most challenging for this Paper. Walker J and Unger B in their Paper "*Measuring Global Money Laundering: The Walker Gravity Model*" (published in 2009 in Review of Law and Economics 5(2):821-853) have acknowledged that measuring global ML is still in its infancy. In most jurisdictions,

when data about ML is captured, there is no distinction made in the data with respect to cases of TBML.

90. Further, since in most jurisdictions the same investigating agencies investigate TBML cases and other ML cases, there is no distinction between the methods of detection, investigation and prosecution of the cases of TBML and of other forms of ML. Therefore, no separate statistics of TBML are available among most of the jurisdictions. Suspicious Transaction Report (STR) database of FIUs also generally do not distinguish between TBML STR and other STRs.
91. A general lack of awareness about the red flags of TBML and the multiplicity of authorities which deal with elements of international trade transaction increases the challenges with the detection and investigation of TBML cases. Resultantly fewer cases are being reported, thereby making estimation of the correct size of TBML almost impossible.
92. Responses which have been received from 20 jurisdictions/organizations indicate the following:
 - a) 45% of the respondents have attributed the reason for so few cases of TBML being reported is the lack of training / awareness and limited resources being allocated for the purpose. Most of the jurisdictions have responded that they have not undertaken sufficient studies and/or risk assessments on TBML; abuse of trade finance; transfer pricing, and alternative remittance systems.
 - b) 40% of the respondents have attributed the reason for low reporting of TBML cases as their law and current policy. It is interesting to note that such law and policy relate to trade policy and to Customs law. For instance, in a few jurisdictions, violations of Customs law have not been included as a predicate offence under their national AML Law. Consequently, a lower number of cases of TBML have been detected, reported or investigated. A few jurisdictions stated in the questionnaire that low rates of Customs duties / taxes effectively lower the incentive of ‘over and-under invoicing’ of shipped goods. Since the aim of criminals using TBML is to earn ineligible export incentives and evade customs duty there have been few TBML cases recognized. Others have responded that Customs officers are primarily required to detect and investigate cases of undervaluation / overvaluation of export / import of goods / services, and are not primarily responsible for enforcing the national AML/CFT laws therefore, a limited number of TBML cases are detected. Among other policy/law issues highlighted in the questionnaire were, the absence of proper categorization of TBML cases and hence the nonexistence of separate data for TBML cases. This was explained by the observation that the priority of the authorities, till recent times, has been to prevent ML by the other two significant methods of ML, namely, cash remittance and bulk cash smuggling, rather than through TBML.
 - c) Only 20% of respondents indicated that TBML was not an issue despite the low recording rates. Reports received from respondents reveal that for a few jurisdictions, international trade is an insignificant percentage of their GDP, hence possibility for TBML is also limited.

93. It appears from the analysis that the low level of cases that have been reported on TBML are largely due to a lack of awareness and training about TBML among the jurisdictions. It follows then that any available statistics will be an underestimate of the true extent of the TBML problem.
94. To ascertain the extent of TBML an attempt has been made in this Paper to see whether all known forms of TBML have been covered by the past studies or whether there is scope for further expansion.
95. Analysis indicates that 55% of the respondents have stated that the FATF studies of the past have covered all known types of TBML. Whilst this leaves scope to explore other types of TBML a few jurisdictions have also reported that the following aspects of TBML call for sharper focus than what has been achieved in the past:
- i. ‘Under /over pricing’ of **services** need to be targeted separately due to its peculiar nature
 - ii. **Terrorist financing** and its linkage to TBML
 - iii. Misuse of **Trade Finance**.
96. The most challenging aspect relating to the extent of TBML given the current sample size, has been to arrive at any conclusion about the magnitude of the TBML problem. Perhaps one way of such estimation may be by looking at the number of TBML investigations which have been carried-out; the average size of TBML offence; and, the number of STRs generated in this regard, over the last five years. Even this methodology is flawed by the fact that most of the jurisdictions do not maintain separate statistics for TBML as a distinct from other ML offences and therefore no meaningful inferences can be drawn. However, for the sake of completeness and record, this report will present the few statistics provided, though the results are unlikely to be representative of regional or global patterns.
97. Five jurisdictions reported on the numbers of TBML investigations in the TBML questionnaires. Between 2007 and 2011 investigating authorities in the jurisdictions reported 289 investigations. The number of identifiable TBML STRs generated between 2007 & 2011 has been 1994. The average size of a TBML offence is USD 1.93 million (USD 557.32 million involved in 289 cases), based upon the responses received. The total value of assets forfeited by two of these jurisdictions between 2007 and 2011 on account of TBML was USD 144.35 million.

CONCLUSION ON THE EXTENT AND PREVALENCE OF TBML

98. This study has not been able to draw definitive conclusions on the extent and prevalence of TBML. The few cases reported by the limited number of jurisdictions undermine estimation of the size of TBML. To what extent TBML is in use remains a concern as a straight answer is not available due to the lack of awareness and paucity of training on TBML among the jurisdictions. All the aspects of TBML are not even covered by those jurisdictions which have reported TBML statistics. There is no standardization with regard to the practice of collection and maintenance of data on TBML. Even then, it is obvious that TBML is a

problem for many of the jurisdictions and has tremendous potential as an avenue to launder money.

99. Despite the findings in this Paper in relation to lack of awareness; in tandem with the limited number of TBML studies that have been done by jurisdictions; and, the lack of separate statistics for TBML, it is still asserted by the project team, with some measure of confidence, that these statistics, although underestimating the problem, do go some way to corroborate the significance of TBML as an increasingly important avenue for laundering of proceeds of crime.

ROLE OF AGENCIES RESPONSIBLE FOR TACKLING TBML

100. The 2006 FATF Paper on TBML pointed out that trade data analysis is a useful tool to discover trade anomalies,, which in turn can lead to detection, investigation and prosecution of cases of TBML. The questionnaire sought to consider which agencies are responsible for collecting and managing trade data; what risk management analysis is undertaken for such data; and, whether it is the same agency or some other agency which undertake TBML investigation. The study has sought to determine the role of other allied agencies including the regulators in this regard.
101. Almost all the jurisdictions reported that at least one department within Government records and manages information on goods imported and exported into the jurisdiction. In most of the jurisdictions, it is the Customs Department that does this. In a few jurisdictions, other agencies like the Economic Services Bureau, Free Zone Authorities, Census and Statistics Department, Port Terminal Operators also record and manage information on goods imported / exported. In most of the jurisdictions, information databases are maintained by Customs and these databases record all relevant information both on imported and exported goods. In response to questions on whether information is collected on: the type of goods; value of goods; importer details; exporter details; owner details; receiver details; and, shipping company details etc, almost all the jurisdictions have reported that all this information is collected. Generally, a Customs Declaration Form is used to obtain this information, which besides being used for tax / duty purposes, can also be used for the purpose of detecting or investigating TBML cases. The Questionnaire circulated among jurisdictions also sought to ascertain whether the jurisdictions collected information to identify the true value of goods, i.e. whether there is under/overpricing. 60 % of the jurisdictions have advised that they are using data within the various databases to help identify the true value of goods, i.e whether goods have been under/overpriced, by attempting to ‘normalise, Trade Pricing.
102. 75% of the jurisdictions have indicated that the relevant Customs agencies are also maintaining an intelligence database on import and export of goods; however, 30% reported that Customs also cross reference this information with other government databases, i.e. companies registry, tax records, criminal records etc. Only 20% of the respondents indicated that Customs conduct ML investigations. In most of the jurisdictions, ML investigations were done by a separate ML investigating agency. In these jurisdictions Customs generally referred the potential TBML cases to an investigating agency mandated to investigate ML cases.

103. Only 25% of respondents have reported that Customs have dedicated financial investigators with experience in trade related offences and/or ML investigations. Thus in most of the jurisdictions, although Customs capture and manage the information on goods imported and exported into the jurisdiction, they have either no authority to investigate ML cases or even where they have such authority, they don't have dedicated financial investigators with experience in trade related offences and/or ML investigations.
104. About 50% of the respondents have indicated that Customs personnel are part of joint financial investigation/ML task forces in those jurisdictions. In a few jurisdictions, Customs officers are members of Anti-Money Laundering Working Groups. The working groups do not conduct investigations; however their members do share information, typologies, and emerging trends on ML.
105. 45% of the respondents have reported that the law enforcement agency mandated to investigate ML cases is part of a joint financial investigation/ML task force that conducts investigations into TBML offences. The same percentage of respondents have reported that ML investigating agency have specialist financial investigators to conduct the TBML investigations.
106. Only 15% of the jurisdictions have reported that their FIU form part of any joint financial investigation/ML task forces that conduct investigations into these offences. In the majority of jurisdictions, the relevant FIU is not part of any joint financial investigation/ML task forces that conduct investigations into TBML offences and is designated as the agency responsible for carrying out day to day functions of the ML Reporting Authority only i.e. functioning as an administrative FIU.
107. Only 15% of the jurisdictions have reported that their relevant Tax Authority conduct investigations/audits into TBML. Most responses indicated that the main aim of tax authorities in their jurisdiction was to ensure tax compliance and not to focus on detecting suspected criminal activity of ML. In most of these jurisdictions, there was no detection of any link between TBML and transfer pricing and no case of TBML was detected out of tax compliance audits.
108. Only 25% of the jurisdictions reported that members of the relevant Tax Authority were part of any joint financial investigations/ML Task Force that investigates TBML.
109. More than 50% of the jurisdictions have indicated that the relevant regulator or supervisor are providing guidance to reporting entities regarding TBML vulnerabilities and red flags. Such guidance includes dissemination of examples of suspicious transactions (red flags in relation to trade finance, typologies report and papers issued by either FATF or APG) so as to enhance awareness. Some responses indicate that although no specific guidance was provided in relation to TBML, more general guidelines about AML/CFT were issued to the banking and financial institutions. One jurisdiction indicated that they had established specific examination procedures relating to a range of banking activities, products, and services, including trade finance activities, in the form of an AML Examination Manual. Feedback also indicated that supervisors regularly participated in industry forums, regulator

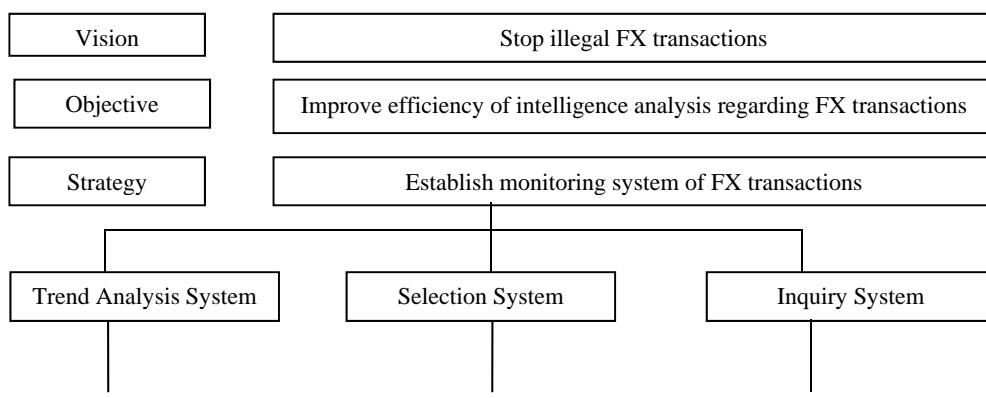
panels, and other outreach activities so as to provide financial institutions with guidance relating to TBML risks.

110. 50% of the jurisdictions indicated that their AML supervision regime include trade finance aspects of compliance. Response received from one jurisdiction also indicated that in its jurisdiction, AML supervision applied a risk-based approach to scoping and planning its AML supervisory functions.
111. Only 40% of jurisdictions indicated that the regulator or supervisor was providing training to reporting entities and to its own staff. Further, only 25% of jurisdictions have reported that regulators have experts in the area of Trade Finance. However, jurisdictions were unanimous that there is a need for training to be provided to regulators about AML risks and vulnerabilities associated with trade finance activities as they, the regulators, would benefit from better training and awareness.
112. 55% of the jurisdictions indicated that their jurisdictions had in place foreign currency controls. However, 25% of jurisdictions reported that in their opinion, such “foreign currency control” had a role in identifying abuse of trade finance or TBML. Thus, it may be extrapolated that in these 25% of jurisdictions the aim and objective of foreign currency controls, are not specifically to target abuse of trade finance or TBML. However, the significance of foreign exchange manipulation in adding to the vulnerability from TBML in international trade and the necessity to monitor foreign exchange data to reduce such vulnerabilities are demonstrated by the contribution from South Korea in the box item placed below.

FX MONITORING SYSTEM

The volume of Foreign Exchange (FX) data received in the course of cross border economic transactions has skyrocketed largely due to increase in international trade. There was no satisfactory system in South Korea which would allow effective monitoring of overall FX data, which limited the capacity for quick response to changes in the foreign exchange market. It became imperative that an Effective Risk Management System is developed to deal with the voluminous data. FX Transaction Monitoring System has been developed in South Korea which aims at (1) effective monitoring of FX data, (2) selection of suspicious companies based on logical criteria, and (3) swift intelligence analysis.

System Structure



(1) Time series information on trend of changes in FX data
(2) Information on abnormal FX transactions.

(1) Selection model utilizing statistical method.
(2) User-oriented selection model.

(1) Detailed analysis on FX Balance Sheet (B/S).
(2) One-click inquiry about detailed transaction records.

The Trend Analysis System monitors all FX data (including inward /outward remittances and purchase of bill of exchange) collected by Korean Customs for working out trends of changes. The System categorizes FX data by industry or jurisdiction month-wise so as to provide inquiry service about time series information. Users can take a look at trend of changes in industry-/jurisdiction-specific FX data. The System brings out changes considered abnormal with regard to overall FX data; or FX data by major industry or jurisdiction. Transactions are regarded as abnormal which show abrupt changes compared to average value of the recent three years. Once abnormal transaction is spotted, the system provides relevant information to experts in charge of intelligence analysis. The experts would compare such abnormal inflow or outflow of FX for that industry or jurisdiction with data of exports or imports made from/to that industry/jurisdiction.

The Selection System calculates scores of all exports/imports by taking advantage of statistical method (data mining). Based on the scores, the System helps users to select suspicious companies. Crimes related to FX transactions are categorized into four categories based on applicable legislations and violation types viz. (1) Violations in terms of payment method, (2) Violations in terms of the report of capital transaction, (3) illegally moving property abroad, and (4) ML (which include trade abuse through mispricing etc.) For example ML may occur through inward remittances to multiple bank accounts disguising wire transfers as being related to trade activities. On analysing past crimes of four types of violations, risk profiles of companies are drawn. The System also provides a user-oriented selection model whereby experts in charge of intelligence analysis choose risk factors; and adjust value or ratio depending on their analysis purpose to select suspicious companies. One-click inquiries about suspicious companies regarding their records of export/import clearance and foreign exchange transactions are made possible.

The Inquiry System provides refined FX Balance Sheet (B/S), which reflects position of individual companies and jurisdiction-specific FX B/S of trading partners. Foreign exchange B/S is basic data for intelligence analysis on FX transactions. The B/S allows comparison between export/import amount and receipt/payment of FX money during certain period. The System builds jurisdiction-specific B/S by linking export/import data and FX data of each trading partner jurisdiction; and provides visualized results such as tables and graphs. The System enables one-click inquiry about general information of export /import and FX data of individual companies. The System is equipped with user interface which not only allows selection of suspicious companies but also enables search for raw data of transaction records of each company. Such a System can shorten inquiry time.

113. Only 15% of the jurisdictions have reported that during investigations of Alternative Remitters, they have identified instances of TBML. Further only 10% of the respondents reported that during such investigations of Alternative Remitters, they have identified instances of abuse of trade finance. 40% of the respondents did not submit any response in respect to questions concerning alternative remittance systems.

CONCLUSIONS ON ROLES OF AGENCIES

114. The statistical analysis reveals that ‘trade data’ is collected and managed by at least one of the Government Department in each jurisdiction. In most of the jurisdictions that Department is the Customs Department which not only collects and manages ‘trade data’ but also uses the data to detect and investigate violations of Customs Law relating to evasion of Customs duty. However, in most of the jurisdictions, the Customs Department does not have the authority to conduct any ML investigation including TBML investigation. It appears that the agency responsible for ML investigations in those jurisdictions conduct all ML investigations including TBML investigations.
115. The Tax authorities in a large number of jurisdictions also have a limited role to play in investigation of TBML cases. While regulators in most jurisdictions do sensitize their reporting units about the abuse of finance products emphasis on the significance and relevance of these products in detecting TBML does not appear to be high. The lack of trade finance investigators and absence of ‘systems’ capable of cross-referencing trade data with that of trade finance are important limitations.

DOMESTIC & INTERNATIONAL COOPERATION AND TRAINING

116. Professional specialization of any agency makes it more proficient to carry-out its mandated work. However, a complex problem like TBML which cuts across more than one sector of an economy and goes beyond the national borders require considerable cooperation among agencies both domestically and internationally in order to provide solutions. To address this, a set of questions were incorporated in the Questionnaire so as to determine the extent and manner of cooperation among agencies both at the domestic and international levels. The FATF Paper on Best Practices published in 2008, has recommended having joint task forces among domestic agencies to ensure domestic inter-agency cooperation.
117. This Paper suggests strengthening the arrangements concerning exchange of information by fortifying mutual legal assistance agreements to support more meaningful international cooperation. One significant method of building such best practices has been the suggestion to include TBML orientation in ML training programs. Another set of questions in the Questionnaire relate to the exposure to TBML training for the agencies concerned.
118. The project team has categorized that there are three broad phases of domestic cooperation among the competent authorities namely: sharing of intelligence; coordination in investigation; and, support in prosecution.
119. The statistical analysis reveals that only 55% of the jurisdictions have submitted a response to the question of how the TBML investigations were initiated. 30% of the jurisdictions reported that the inputs for TBML investigations came from intelligence and STRs. 45% of jurisdictions reported that inputs for TBML investigation came from law enforcement agencies whereas only 25% of jurisdictions reported that the source for initiating TBML investigations was “Trade Data”. For almost 35% of the respondents, suspicious transactions related to TBML were first reported to FIU, which conducted analysis before reporting it to the relevant investigating authority.

120. 35% of jurisdictions reported that TBML investigations by ML investigating agency are initiated from ‘internal intelligence’ whereas 55% of respondents reported the source of intelligence for ML investigating agency as ‘referrals from other agencies’. Jurisdictions reporting ‘internal intelligence’ as the source for initiation have also reported that ‘referrals from other agencies’ are another source for initiating TBML investigations. A few jurisdictions have also reported referrals from the ‘private sector’. 60% of responses received indicate that they receive information from the relevant Customs agency. However, 35% of the jurisdictions stated that though their ML investigating agency receives information from Customs there are restrictions on the use of that information.
121. In response to the question on the types of impediments faced in use of information received from other agencies, 25% of the jurisdictions have reported that there are impediments which have been identified as: resource constraints; lack of training; delay in release of further information; and, the inability to justify an inquiry. It is interesting to note that limited capacity to match trade data with financial transaction information also hinders the capability of the FIU to proactively assess possible TBML-related transactions.
122. 30% of the jurisdictions have reported that there are impediments encountered in the extending of cooperation while conducting investigations. According to the survey the main impediments encountered during the course of investigations were maintaining confidentiality; inhibited from using such information in prosecution / legal proceedings; non-disclosure to third parties without consent; and, use of juridical information only with the authorization of a magistrate (or judicial authority).
123. 90% of the jurisdictions submitting response to the Questionnaire reported that Customs agencies receive financial information from the FIU. According to the responses the FIU generally provided such information spontaneously or upon request. However, responses received also revealed that in some countries, there is requirement to sign a Memorandum of Understanding before sharing of information can take place. In one jurisdiction, the FIU has a Memorandum of Understanding (MOU) with several partner agencies/departments. These Partner Agencies according to the response have on-line access which allows them to ask for financial information relevant to all investigations. According to the response, the MOU framework accounts for objectives of each agency and is aligned with national interests.
124. 30% of the respondents have indicated that the Tax Authority receives FIU data for the purpose of investigation of administrative issues. However, to what extent such data relate to TBML has not been indicated.
125. Since TBML occurs across national borders, the best practices for strengthening international cooperation recommended by the FATF in 2008 and supported by the project team needs to be emphasized. Mutual Legal Frameworks with effective gateways must be capable of facilitating prompt exchange of information and trade data.
126. 55% of the jurisdictions have indicated that they seek information from their international counterparts during ML investigations. Responses received indicate that jurisdictions

provide and share intelligence with the Regional Intelligence Liaison Office and World Customs Organization. Some share ‘trade data’ with their partner countries in terms of specific information sharing agreements to exchange trade data. 40% of the respondents have indicated that they seek information from FIUs and LEAs in other countries. 40% of the respondents have advised however that there are impediments to the receipt or dissemination of this information. The most common impediments identified in the survey are: “supply and use of information under the secrecy clauses”; signing of relevant MoUs: lack of a clear document of mutual administrative assistance in areas that are not under the control of Customs; delay in response; and, use of financial information obtained from the FIUs being limited to intelligence purposes only etc. Further, it was identified that restrictions occur without the existence of a multilateral trade agreement for the use and sharing of information with other foreign partners.

127. About 30% of the jurisdictions indicated that they have shared TBML related intelligence with foreign counterparts. However, 15% jurisdictions have reported that they were not made aware of the results of that dissemination.
128. 70% of the respondents advised that international requests have been made for sharing financial intelligence. Responses also indicate that in some jurisdictions, trade-related information can be shared with other FIUs within the framework of MOUs. Operationalising international cooperation by developing a common platform to share and analyse trade data of trading partners so as to combat TBML is demonstrated by forming Trade Transparency Units (TTU). The challenges met by formation of a TTU and its basic features have been explained in the contribution made by the USA in the box placed below:

TRADE TRANSPARENCY UNITS (TTU)

TBML schemes are often accomplished through customs fraud violations such as over & undervaluation, over & under-shipment, false invoicing, double invoicing, and the Black Market Peso Exchange. Due to the complex nature of international trade systems, law enforcement agencies are only able to see one side of the trade transactions. Criminal investigators might have expertise and experience investigating either financial or customs fraud crimes, but do not have the full financial and trade data that would give them a complete picture of the scheme. This lack of transparency often catalyzes the use of TBML by Transnational Criminal Organisations (TCOs).

Furthermore, as international trade has expanded, so also has the range of activities that TCOs are involved in. This has led to TCOs evolving into loose networks who work together in order to exploit new market opportunities. Such rapid evolution calls for international law enforcement agencies to take a more integrated approach to address this threat. However, many challenges on integration, such as communication and cooperation, still present themselves. Law enforcement agencies are often hamstrung when it comes to sharing information with international partners, relying on traditional diplomatic channels such as Mutual Legal Assistance Treaties (MLATS) or Customs Mutual Assistance Agreements (CMAAs), in order to gather or exchange information on criminal or terrorist threats. These agreements are often lacking in scope and can take considerable time to execute the exchange of information. Additionally, International trade transactions inherently occur behind multiple sides of international borders involving multiple parties and many layers of documentation and paperwork. This complexity and lack of transparency make these transactions highly susceptible to fraud and exploitation.

Another core issue is the disparity of the capacity and capabilities between different international law enforcement agencies. A uniform understanding of the threat and threat space is a key starting point

amongst partnered countries, followed up by in-depth co-sponsored training that will eventually close the knowledge gap on TBML. Law enforcement agencies must follow a uniform methodology in attacking TBML if they are to be successful. Agencies must have adequate strategic, operational, and tactical intelligence capabilities. Also, agencies must have a platform to share trade data across borders with partner countries. Finally, countries must have adequate prosecutorial authorities and arrest powers for their agencies to attack the threat.

In 2004, United States Homeland Security Investigations (HSI) initiated the Trade Transparency Unit (TTU) to prevent, combat, and dismantle TCOs that engage in TBML. TTU develops partnerships with customs and financial agencies around the world to detect trade discrepancies and to investigate criminal violations including TBML. TTU focuses on the sharing of trade information with international partners allowing each TTU to compare values reported on U.S. import/export declarations against the corresponding values reported on foreign counterpart import/export declarations. Investigators are thus able to see both sides of the trade transaction, thereby adding a level of transparency.

The process starts when HSI reaches out to jurisdiction representatives, to further discuss a potential partnership under the TTU umbrella. Thereafter trade data of the partner jurisdiction is formatted. Agreements are signed and guidelines are established for the sharing of trade information. The access to the shared TTU trade software system is the key component that allows the TTUs to operate. TTU has developed a proprietary computer-based system called “Data Analysis & Research for Trade Transparency System” (DARTTS) to host and analyse the combined international trade data, which allows the user to identify abnormal trade transactions that may indicate TBML, customs duty evasion, and other related customs and financial crimes.

Direct communication amongst international partners is highly encouraged. Personnel assigned to the TTUs meet regularly to exchange ideas, discuss emerging trends and to provide each other support, guidance, training, and tools to combat TBML.

129. The FATF Best Practices Paper 2008 urged for a stronger focus on training programmes for competent authorities to enhance their ability to identify TBML techniques which is also supported by the project team. Such programmes, particularly those directed towards investigating and other allied agencies, must highlight the relevance of both financial and trade data to assist programme participants in detection of TBML cases.
130. 40% of the jurisdictions indicated that Customs have received training on TBML. Further, only 10% indicated that they provided training to others. Most of the jurisdictions have agreed on the need for better training and understanding of the techniques of TBML. Even on the question of ‘challenges and obstacles for the Customs agency’, a common response was that besides the ‘lack of authority for Customs to investigate TBML cases’ (legal issue), ‘lack of training and resource’ was indicated as a major challenge for Customs to identify or investigate TBML.
131. 35% of the jurisdictions indicated that relevant ML enforcement agencies had received training on TBML. Further, only 15% of the jurisdictions reported that they provide training to other agencies on TBML issues. The main methods of training have been stated as, ‘attending local and overseas training and seminars’. Most of the jurisdictions agreed on the need for better training and awareness of the techniques of TBML.

132. Only 35% of the jurisdictions have indicated that the FIU has received training on TBML. Equal numbers of jurisdictions have indicated that FIU is also providing training to other agencies on TBML issues. The mode / method of training are through the participation in international conferences, seminars and overseas training. Material relied upon in the training include annual reports of FIUs, typologies, sanitised cases and indicators linked to TBML latest studies & papers etc. 20% of the jurisdictions have informed that their Tax Authority received training on TBML. Further only 5% have indicated that their Tax Authority provides training to others on TBML issues. Responses received from jurisdictions indicate that officers of Tax Authority are trained to conduct tax audits and no training with specific reference to audit in TBML cases has been received by the said officers.
133. Training to those responsible for detection and investigation of TBML as well as to those who collect trade data and handle trade finance is critical to raise their awareness about TBML and build capacity to identify TBML. Since in majority of jurisdictions those who handle trade data, who deal with trade finance and who investigate TBML belong to separate agencies the significance of building mechanisms for domestic cooperation cannot but be emphasized. Sharing of trade data across trading countries supported by prompt exchange of information during investigation and for prosecution can be very important for preventing and curbing TBML. However, there are impediments in exchange of information both domestically and internationally.

PATTERNS OF FINANCIAL PRODUCTS USED

134. On the issue of financial or banking products used for TBML, responses received from the jurisdictions indicated that formal banking channels as well as alternative remittance system are being used. Normal banking channels that have been used to finance trade are open accounting system and letter of credit mechanisms. The gaps between declared trade transaction value and the true value of goods have often been filled-up through alternative remittance.

RED FLAGS AND PATTERNS

135. The last set of questions in the Questionnaire relate to eliciting responses from the jurisdictions about the indicators which can help discern the patterns of TBML. The FATF Best Practice Paper 2006 has regarded making case studies and red flags available to competent authorities and financial institutions as a basic principle of guidance to foster the capacity to combat TBML. The patterns and red flags help in identifying the occurrence of ML in trade and trade finance transactions. The jurisdictions which responded to the Questionnaire have listed a large number of patterns and red flags which this Paper has categorised in five broad groups: i) Trade Finance; ii) Jurisdictions; iii) Goods; iv) Corporate Structures; and v) Predicate Offences. The last four categories have been dealt with in the past papers under the broad category of trade.
136. TBML can take many forms and the distinction between it and other forms of ML which use the financial system is often blurred. Efforts have been made in the present section of this Chapter to identify and describe specific characteristics of TBML and hence this

Section has examined and analysed trade characteristics as patterns of jurisdictions, goods, corporate structures and predicate offences. Red flags identify only possible signs of illicit activity and have to be considered in conjunction with the normal transaction activity expected.

137. Based on the responses received from jurisdictions, red flags relating to financial & banking products may be categorized as follows:
- a) Use of **letters of credit** to move money between those countries, where such trade would not normally occur and / or is **not consistent with the customer's usual business activity**. A Letter of credit is generally resorted to so as to accord more legitimacy to the transaction in order to conceal the real facts.
 - b) The **method of payment** requested by the client appears **inconsistent with the risk characteristics of the transaction**. For example receipt of an advance payment, for a shipment, from a new seller in a high-risk jurisdiction.
 - c) The transaction involves the receipt of cash (or by other payment methods) **from third party entities** that have no apparent connection with the transaction or which involve front or shell companies or wire instructions / payment from parties which were not identified in the original letter of credit or other documentation. The transactions that involve payments for goods through cheques, bank drafts, or money orders not drawn on the account of the entity that purchased the items also need further verification.
 - d) The transaction involves the use of repeatedly **amended or frequently extended letters of credit** without reasonable justification or that includes changes in regard to the beneficiary or location of payment without any apparent reason.
 - e) **Unusual deposits** i.e. use of cash or negotiable instruments (such as traveller's cheques, cashier's cheques and money orders) in **round denominations** (to keep below reporting threshold limit) to fund bank accounts and to pay for goods and services. The negotiable instruments may be sequentially numbered or purchased at multiple locations and may frequently lack payee information. Further, cash payments for high-value orders are also indication of TBML activity.
 - f) Inward remittances in **multiple accounts** and payments made from multiple accounts for trade transaction of same business entity are indicators for TBML. In this regard the study of foreign exchange remittances may help detect the offence.
 - g) In the case of **merchanning trade**, the trade finance mechanism should be in place for both export leg as well as import leg of transaction. If the Trade Finance mechanism, for example, Letters of Credit, have been provided for only the import leg of the transaction and not for export leg, it also indicates the possibility of TBML.

PATTERNs OF JURISDICTION (FROM WHERE OR TO WHOM, GOODS ARE USUALLY SHIPPED/TRANSHIPPED)

138. The Questionnaire also intended to ascertain patterns from jurisdictions as to or from where goods usually shipped. Responses received indicated that in 90% of jurisdictions, no such patterns had been identified to date, either because of the low numbers of TBML cases or due to other reasons such as a study of this type had not been carried out. Responses indicated that existence of duty free zones or jurisdictions having high import tax / export tax rebate are most likely to be used for TBML. Volume of trade, value of trade, type of commodity or service traded and/or the domestic regulatory environment are the factors which determine the sensitiveness of a jurisdiction for TBML. Generally, all the factors combine to make a jurisdiction prone to high risk of TBML.

RED FLAGS WITH REGARD TO JURISDICTIONS

- a) The commodity is shipped to or from a jurisdiction designated as '**high risk**' for ML activities or sensitive / non co-operative jurisdictions.
- b) The commodity is **transhipped** through one or more such high risk / sensitive jurisdictions for no apparent economic reason.
- c) Presence of **Free Trade Zones / Special Economic Zones** also affects the sensitiveness of a jurisdiction as far as TBML is concerned. FTZs are also emerging as being especially vulnerable to TBML. FATF (2010: 4) defines FTZs as 'designated areas within countries that offer a free trade environment with a minimum level of regulation'. In the said report, FATF noted that most zone authorities operate separate company formation services from those that exist in the rest of the jurisdiction and market the ease of setting up a legal entity in an FTZ to attract business. Many zone authorities request little or no ownership information of the companies interested in setting up in the zone. As a result, it is simpler for legal entities to set up the firms/companies in FTZs and hide the name(s) of the true beneficial owners. This lack of transparency has allowed companies located in FTZs to create layers of transactions that are difficult (if not impossible) for law enforcement agencies to follow (FATF 2010). It also reported that 'goods introduced in a FTZ' are generally not subject to the usual customs controls, with goods undergoing 'various economic operations, such as transhipment, assembly, manufacturing, processing, warehousing'. FinCEN has identified TBML red flags that are specific to FTZs. In its 2010 report, FinCEN (2010: 4) signalled that a number of red flags seen in conjunction with shipments of high dollar merchandise (such as electronics, auto parts and precious metals and gems) to duty free trade zones could be an indication of a trade-based money laundering activity.

These include:

- i. third-party payments for goods or services made by an intermediary (either an individual or an entity) apparently unrelated to the seller or purchaser of goods. This may be done to obscure the true origin of the funds;
- ii. amended letters of credit without reasonable justification;

- iii. a customer's inability to produce appropriate documentation (ie invoices) to support a requested transaction; and
 - iv. significant discrepancies between the descriptions of the goods on the transport document (ie bill of lading), the invoice, or other documents (ie certificate of origin, packing list etc) (FinCEN 2010).
- d) **Circuitous route of shipment** and/or **circuitous route of financial transaction** or **Order for the goods** is placed by firms or individuals from foreign countries other than the jurisdiction of the stated end-user.
- e) Transaction involves **shipment of goods inconsistent with normal geographic trade patterns** of the jurisdiction i.e. trade in goods other than goods which are normally exported/ imported by a jurisdiction or which does not make any economic sense e.g. Semi-conductor manufacturing equipment being shipped to a jurisdiction that has no electronics industry.

PATTERNS OF GOODS INVOLVED IN TBML

139. Most of the jurisdictions have responded to state that no definite pattern of goods involved in TBML is identifiable. This is probably due to the vulnerability of almost all trade transactions for TBML, irrespective of the goods involved. A few studies including that of Clare Sullivan and Evan Smith cited earlier, have emphasized the vulnerability of trade in services for TBML. Global trade in services provide greater opportunities for ML than trade in merchandise because fraud particularly in regard to valuation of services is more difficult to detect and prove. The intangible nature of services makes even facts of supply / delivery / provisioning difficult to determine. Unlike merchandise, services are also less likely to be standard, so anomalies in value and price are less apparent and more difficult to substantiate. However responses do indicate that goods involved in TBML will be usually those goods, where it is rather difficult to identify true value, due to the nature of these goods. Further responses also indicate that vulnerable goods are those which are subjected to higher taxes/ duties or are high turnover goods or are high valued goods. Examples of such goods are consumer goods, textiles, garments, engineering goods, electronics goods, illicit tobacco products, leather goods, luxury cars, precious metals, counterfeit products, diamonds, metal scraps. Illicit trade in tobacco has been identified as prone to ML as such trade is cash intensive, profitable with low levels of risk, and the possibility of intermingling of illicitly generated funds with legitimate forms of business is high.

RED FLAGS WITH REGARD TO GOODS

- a) Where significant discrepancies appear between the **description, quality and quantity** of the goods on the documents such as bills of lading, invoices etc and the actual goods shipped. The misrepresentation may also be in relation to or type / grade of goods. For example, a relatively inexpensive good is supplied but it is invoiced as being more expensive, of different quality or even as an entirely different item so the documentation does not accurately record what is actually supplied. This technique is particularly useful in TBML. Cheap cloth items / waste thereof are declared as premium quality garments to launder the criminal money.

- b) Significant discrepancies appear between the **value** of the commodity reported on the invoice and the commodity's fair market value. This is done either in conjunction with mis-declaration of the description / quality / grade of goods or without it. This is also often associated with mis-declaration of the jurisdiction of origin.
- c) **Consignment size or type of commodity** being shipped appears **inconsistent with the scale or capacity of the exporter or importer having regard to their regular business activities** or the shipment does not make economic sense i.e. there is no reasonable explanation for the client's financial investment into the shipment.

PATTERN OF CORPORATE STRUCTURES

140. To adduce information about the types of corporate structures i.e. Companies, Partnership Firms, Proprietorship, Offshore Companies etc. used by criminal syndicates in TBML, relevant questions were included in the Questionnaire. Responses indicate that both domestic companies as well as overseas companies are used by criminal syndicates. Bogus registered companies (behave like true consignor / consignees of goods) and offshore companies located in tax havens have been reported as corporate structure misused by criminal syndicates. The use of offshore companies is also associated with complex schemes and methodologies utilized by established criminal enterprises.

RED FLAGS WITH REGARD TO CORPORATE STRUCTURES

- a) The transaction involves the use of **front or shell companies**. Both shell and front companies can be used to facilitate TBML but in different ways. A shell company has no real operating activity and is used to hide ML activity and the identities of individuals involved so as to obscure the money trail. If activity is traced to the company it is literally an empty shell. As FATF (2010: 20) explained TBML and other ML schemes rely on the ability of the perpetrator of the crime to distance themselves from the illicit proceeds. Shell companies enable illicit actors to create a network of legal entities around the world. By contrast, a front company has real business whose legitimate operations are used as a cover for ML and other criminal activity. In many ways, front companies present a much more significant TBML threat than shell companies. The characteristics of offshore companies, for example, convenient formation, free operation, tax exemption and financial secrecy, all provide rather good veneer to disguise ML
- b) Numerous **sole proprietorship businesses/private limited companies** set up by seemingly unrelated people (proxies) are found to be controlled by the same group of people. For the setting up of such businesses false addresses are registered.
- c) Trade transaction reveals links between representatives of companies exchanging goods i.e. same owners or management. TBML requires collusion between traders at both ends of the import/export chain. **Related party transactions** (ie transactions between entities that are part of the same corporate or business group) can possibly make TBML easier and more difficult to detect. Related party transactions, including transfer pricing, rely on mutual agreements between the parties, rather than free market forces. As the FATF (2006: 5) pointed out, over-

or under-invoicing of goods and services requires collusion between the exporter and importer. Although there is a higher risk of related party transactions being used for fraud and for TBML, dealings between related parties are not necessarily illegal.

- d) **Transfer pricing** is a related party transaction that is commonly used by transnational corporation as part of their financial and tax planning strategy. Multinational organisations use transfer pricing to shift taxable income from jurisdictions with relatively high tax rates to jurisdictions with relatively low tax rates to minimise income tax. Similar strategies are also employed in relation to import duties and value added tax. FATF (2006: 3) made it clear though that in the case of transfer pricing, the reference to over- and under-invoicing relates to the legitimate allocation of income between related parties, rather than customs fraud. However possibility of TBML originating in transfer pricing cannot be ruled-out.

PREDICATE OFFENCES OF TBML

- 141. 15% of the jurisdictions have reported that **tax evasion** is the predominant predicate offence in TBML cases whereas 10% of the jurisdictions have reported **customs offences** as the main predicate offence. Other responses indicate that predicate offences are often related to commercial fraud, IPR, Narcotics, human trafficking, terrorist financing, embezzlement, corruption, organized crime (racketeering), dealing in banned goods, conducting illegal business, speculation etc. One Reporting jurisdiction indicated that ML is considered to be an autonomous offence and there is no need to prove the existence or nature of the predicate offence in order to prosecute hence as a consequence, there is no systemic link between ML cases and other crimes.

CONCLUSION ON RED FLAGS

- 142. The attempt here to segregate Red Flags for different segments of TBML is to simplify the process of understanding the complex problem of TBML. In real life situations the occurrence of more than one red flag is likely for trade transactions involving ML. The red flags enumerated in this Chapter are by no means exhaustive. Annexure A to this Paper has enlisted ‘red flags’ from a number of sources. The process of developing red flags is continuous and requires more and more jurisdictions to contribute towards a common pool of knowledge.

CHAPTER III - TRADE FINANCE

SIGNIFICANCE OF TBML

143. TBML provides an important avenue for disguising funds of illicit origin and for moving value to finance illegal activities. Chapter II on Statistical Analysis may have failed to show the extent and prevalence of TBML in terms of statistical results. However, the significance of TBML as a means of moving illicit value across the globe cannot be denied.
144. Baker (2005: 25) has argued that because ‘anything that can be priced can be mispriced’ and ‘false pricing is done every day, in every jurisdiction, on a large percentage of import and export transactions’ that TBML ‘is the most commonly used technique for generating and transferring dirty money—money that breaks laws in its origin, movement and use’.
145. Preliminary examination of this statement would invoke acceptance by most AML practitioners as anecdotal evidence indicates that false pricing (under and over invoicing) is considerably widespread. It is considered by the project team to be particularly prevalent in trade within jurisdiction as a means of generating criminal wealth through deliberate avoidance of taxation commitments. This is one of the reasons why domestic trade is not within scope of this paper.
146. The project team believe that the geneses of TBML was to defeat the ability of jurisdictions to collect appropriate revenue as espoused by Baker but in more modern times, under and over invoicing has in fact become a ‘by-product’ of what has been identified as professional ML schemes involving very complex international TBML structures capable of moving billions of dollars of value with impunity. In these instances, the commodity is as good as cash without the governance currently imposed on cash transactions around the world. Why this can be achieved is also because of the fundamental lack of regulation of Trade internationally which provides the money launderer with ample vulnerabilities to exploit.
147. Using the cover of Trade is the most logical next step as it further frustrates the activities of regulators and investigators due to the sheer size of the trade mechanisms worldwide and the continuing introduction of new products to reduce supply line costs. The vast number of trade transactions produces a high level of ‘noise’ about the level of legitimate trade and increased flexibility of the processes masks the criminal ML activity. Without specific information to help focus investigations, automatic monitoring becomes relatively ineffective. Legitimate Trade structures have a significant number of benefits to professional ML syndicates namely:
 - The large amount of value that is moved internationally in the guise of Trade;
 - The appetite of jurisdictions especially those that are developing economies to promote trade which in turn reduces red tape to create corporate entities;
 - The ability to mask true activity of corporate entities and ability to disburse concentrations of illegal currency through corporate entities disguised as ‘business as usual’;
 - The ability to engage in corrupt practices on the pretense of trade and trade negotiation;

- The existing trade based mechanism including ‘Trade financing’, International trade payments in foreign exchange; trade liberalisation, electronic commerce and other financial markets are susceptible to abuse;
 - Lack of international regulatory coordination;
 - Lack of data matching across sovereign states;
 - Inconsistent legal frameworks; and
 - Enhanced electronic communication.
148. Unlike alternate remitters systems that are very mobile and operate on very small overheads, TBML structures, especially those that move large amounts of value, are expensive to create, expensive to maintain, leave a considerable evidentiary trail and are difficult to dismantle. It is for these reasons that those responsible for their creation leverage as much criminal profits as they can. These same structures can be used to:
- Launder criminal profits and instruments of crime from criminal activity other than tax evasion and fraud;
 - Undertake large fraud;
 - Facilitate confidence and other financial scams;
 - Facilitate corruption payments; and,
 - Siphon money from aid and other Government assistance programs.
149. Each can be undertaken as an individual activity or simultaneously if necessary. For this reason the project team see TBML as the most difficult activity to detect and in turn successfully disrupt and dismantle.
150. Further, professional money launderers do not need to utilise the traditional financing mechanisms used in International trade (for example credit documentation) as they are moving excess value (profit) or financing ongoing criminal activity (instrument of crime) and credit is not essential. They do so however, to further disguise their activity. The application of credit facilities also assist the criminals to defray their risk if it happens that their activities are detected as the credit partner has a legal right to at least some share of the funds that might be restrained for possible forfeiture.

THE TRADE FINANCE ENVIRONMENT

151. In order to better understand how TBML operates it is necessary to understand the environment in which it operates. By understanding this environment, the ML investigator can better recognise the ‘red flags’ that help peel away the veneer considered paramount by money launderers in achieving their goals. With this veneer in place, an investigator is unlikely to recognise TBML as a result of all the ‘noise’ of legitimate trade. As stated, this paper attempts to provide investigators and in turn regulators with the insight to enable them to ‘crack’ that veneer.

152. Occurrence of trade in a Cash Based Economy can also open up possibilities for TBML which may throw up challenges of its own kind. The contribution by Nepal in the box item placed below give succinct description of such challenges.

CASH BASED ECONOMIES

Less developed countries have economies which are largely cash based. These countries also usually have manual system of records. Such records lying with different entities are in a fragmented state and are usually un-reconciled. Discreet access to such records becomes impossible. These two features viz. Pre-dominance of cash transaction and manual record keeping pose many challenges in combating financial crimes as it is difficult to follow the paper trail. Cash based economies flourish in an economic environment which has a limited number of financial institutions in the formal financial sector. This situation makes the economy vulnerable to a number of financial crimes, including TBML.

Predominance of cash transactions builds uncertainty in the financial system. Transactions in cash allow for concealment of the true value of a transactions and/or the misrepresentation of true records. Cash transactions may even facilitate cash smuggling. Such transactions also fuel the underground economy and tax evasion.

The manual system of records engenders its own set of problems. There is difficulty in data collection. The data cannot be easily cross-checked, timely review of information is not possible and identification of any ultimate beneficiaries or ultimate suppliers and recipients becomes rather difficult. Without a proper database, the customs authorities in these countries also have a major handicap in detecting and investigating TBML cases.

The economic scenario is further compounded by the use of Alternate Remittance Systems (hawala / hundi) by workers of such countries who are located abroad and need to send their savings back home. Such an environment is quite conducive to TBML where proceeds of crime can be very easily structured as remittance for import/export and presented as legitimate funds.

153. It has been said that *trade finance* can be seen as the precise science of managing the capital required for Trade to flow. This chapter describes the most common of the Trade Financing Instruments used today in legitimate trade transactions and then attempt to identify the vulnerabilities of each of these.
154. In its simplest form, an exporter and importer enter into an agreement to Trade. This may be done in some developing regions by way of ‘countertrade’ but more often than not, it is achieved by way of a cash payment or some more complex form of financing.
155. Traders require working capital (i.e., short-term financing) to support their trading activities. Exporters will usually require financing to process or manufacture products for the export market before receiving payment. Such financing is known as *pre-shipping finance*. Conversely, importers will need a line of credit to buy goods overseas and sell them in the domestic market before paying for imports. In most cases, foreign buyers expect to pay only when goods arrive, or later still if possible, but certainly not in advance. They prefer an open account, or at least a delayed payment arrangement. Being able to offer attractive payments term to buyers is often crucial in getting a contract and requires access to financing for exporters.¹⁴

¹⁴ [Trade Facilitation Handbook for the Greater Mekong Subregion – Chapter 8: An introduction to Trade Finance](#)

156. The absence of an adequate trade finance infrastructure is, in effect, equivalent to a barrier to trade. Limited access to financing, high costs, and lack of insurance or guarantees are likely to hinder the trade and export potential of an economy, and particularly that of small and medium sized enterprises. Trade facilitation aims at reducing transaction cost and time by streamlining trade procedures and processes. One of the most important challenges for traders involved in a transaction is to secure financing so that the transaction may actually take place. The faster and easier the process of financing an international transaction, the more trade will be facilitated.¹⁵
157. Financial institutions play the critical role in trade finance. The trade finance products elaborated in this chapter are all derived from financial institutions. Financial institutions have a role to play in efforts to prevent ML activity, holding a large amount of intelligence and information critical for TBML investigators. Often however, these institutions are not aware of how critical the information they hold may be to an investigator. Close interaction with financial institutions is seen by the project team as fundamental to success in dismantling TBML structures.
158. The role of Government in *trade financing* is crucial especially in emerging economies. In the presence of underdeveloped financial and money markets, traders have restricted access to financing. Governments can either play a direct role like direct provision of trade finance or credit guarantees; or indirectly by facilitating the formation of trade financing enterprises.

INSTRUMENTS OF TRADE FINANCE & THEIR VULNERABILITIES

Bills of Exchange

159. The drawing of a ‘bill of exchange’ (also referred to as a ‘draft’) is commonly used by exporters as a means of obtaining payment from buyers for goods shipped. Bills of exchange protects (reduces transactional risk) of both parties. Documentary credits (discussed later) issued for buyers by banks usually require bills of exchange to be drawn, and frequently bills of exchange are drawn by the seller in terms of the commercial contract of sale with the buyer.
160. The relevant financial institution has a vested interest in this transaction, as they are advancing credit to the buyer; and, given this advanced credit may be considerable in monetary terms, the due diligence by the institution is usually as comprehensive as is possible given the circumstances.
161. The Draft or Bill of Exchange (not always required) provides formal evidence of debt under a letter of credit and is presented with all other documents unless stipulated otherwise. A Draft may contain information on:
- Value of Draft, date of payment and payment terms e.g. "at sight", "30 days after sight", "60 days after Bill of Lading Date".

¹⁵ (http://www.unescap.org/tid/publication/chap8_2224.pdf

- Date Exporter presents documents to the "available with" Bank (not normally required).
 - Letter of credit reference number assigned by the Issuing Bank (if required by credit).
 - Date the letter of credit was issued (not normally found on a draft).
 - Name and address of the Issuing Bank (if the drafts are drawn on the issuing bank).
 - Name and address of the bank on which the Drafts are to be drawn.
 - Signature of an authorised signing officer of the Company and the Beneficiary's name as shown on the letter of credit.
162. The *Commercial Invoice* is the accounting document through which the exporter charges the importer for goods and services purchased. The Invoice gives details about:
- Merchandise weight, quantity and price and currency.
 - The name and address of Exporter and the Importer.
 - The number of copies presented and signed if required.
 - The trade term listed, e.g. C.I.F., F.O.B etc.
163. The *Transport Document* (or Bill of Lading, Airway Bill, Railway Consignment Note) is a document issued by the carrier that describes the goods that have been accepted for carriage. In some forms, the Bill of Lading may also act as a document of title to the goods and should include information that is consistent with the letter of credit:
- Information on the merchandise (usually a general description).
 - The points of loading and discharge.
 - To whom the Bill of Lading is consigned.
 - The date of shipment.
164. The *Insurance Document* is a guarantee in part or in whole (depending on the terms and conditions) by an insurance company, specifying the goods shipped on a named vessel, indicating the applicable coverage, and showing to whom loss is payable.
165. The *Certificate of Origin* notes the country where the goods were produced. The *Certificate of Inspection* offers an opinion that the specified quality and quantity related conditions have been met. These documents should be dated on or before the Bill of Lading date.
166. A *Packing List* is usually supplied by the exporting shipper in cases where a diversified shipment is packed in several packages or containers. The list will show the contents of each box or case identified by a specific number. A *Weight Certificate* is supplied by the Exporter, at the request of the Importer. It certifies the weight of each large unit in a shipment or the net and gross weights of packages containing smaller units. It is of

particular value when the price of the goods is based on weight and, also, is often used by the carrier in arriving at the weight to be recorded on the Bill of Lading as a basis for the freight charges.

167. The quantity of units/weights should match the Commercial Invoice (this may or may not agree based on how the weights are calculated by the various parties involved). The breakdown of merchandise/weight per carton, package or container should be shown if requested in the letter of credit.

Vulnerabilities:

- Undertaken and paid for without any form of due diligence by an intermediary in the supply chain because the parties are complicit.
- Phantom trades maybe the cause of unrealistic timeframes or unrealistically short supply chains.

Countertrade

168. Countertrade exists where economies face the problem of limited foreign exchange holdings. That is, they do not hold enough currency of the jurisdiction they are trading with to pay the outstanding debt and the cost of buying more foreign currency to service that debt makes the trade uneconomical.
169. One way to overcome this constraint is to promote and encourage countertrade. It generally encompasses the idea of subjecting the agreement to purchase goods or services to an undertaking by the supplier to take on a compensating obligation in lieu of a cash settlement. The seller is required to accept goods or other instruments of trade in partial or whole payment for its products. Some of the forms of counter trade include:

- Barter – This traditional type of countertrade involving the exchange of goods and services against other goods and services of equivalent value, with no monetary exchange between exporter and importer.
- Counter purchase – The exporter undertakes to buy goods from the importer or from a company nominated by the importer, or agrees to arrange for the purchase by a third party. The value of the counter-purchased goods is an agreed percentage of the prices of the goods originally exported.
- Buy-back – The exporter of heavy equipment agrees to accept products manufactured by the importer of the equipment as payment.

Vulnerabilities

- The TBML vulnerabilities arise in determination of exchange ratios for the goods to be countertraded. Such ratios may often be determined as a process of negotiation rather than market determined, giving scope to TBML.

Documentary Credit (Letters of Credit, etc)

170. Generally the exporter requires an importer to prepay in cash for goods shipped. The importer naturally wants to reduce risk by asking the exporter to acknowledge through documents that the goods have been shipped. The importer's bank assists by providing a letter of Credit (Documentary credits) to the exporter (or the exporter's bank) providing for payment upon presentation of certain documents, such as a bill of lading, either immediately or at a prescribed date.
171. A letter of credit is a precise document whereby the importer's bank extends credit to the importer and assumes responsibility in paying the exporter. Aside from the letter of credit document, other documents used in legitimate Trade include shipping and insurance documents, and commercial invoices. The documentary credit arrangement offers an internationally recognised and used method of attaining a commercially acceptable undertaking by providing for payment to be made against presentation of documentation representing the goods, making possible the transfer of title to those goods.
172. Documentary credits (LCs, etc) are seen as a declining method of doing business, although small and medium enterprises often rely upon documentary credit basis for trade finance. Trade finance has been shifting away from this sometimes cumbersome and often expensive method of conducting business to that conducted on an open account basis.

Vulnerabilities

- Even in this simple form the true value of goods transferred between countries can be masked through misrepresentation of price, quantity and quality. Letters of Credit may be generated to create a veneer.
- The documentation generated in the process leaves a paper trail which money launderer may rely upon to disguise illegal proceeds.

Open Account Facilities

173. Open account transactions can be described as 'buy now, pay later' and are more like regular payments for a continuing flow of goods rather than specific transactions. The pursuit of 'supply chain efficiencies' among larger businesses has encouraged their preference for open account trading, even as small and medium enterprises still rely upon documentary credit basis to conduct business of international trade. Ultimately these results suggest that trade finance should be flexible and that financiers will benefit by adapting product and service offerings to the needs of customers in different segments.¹⁶

Vulnerabilities

- Open account facilities have caused a disconnect between the movement of the underlying trade and the money used to finance it.

¹⁶ <http://www.east.com.au/media/2009-09-16.pdf>

- Payments against these facilities may or may not be undertaken through an international funds transfer instruction (IFTI) or SWIFT.

174. A range of Open Account Facilities are set out below.

Factoring

175. Factoring, also known as invoice discounting, receivables factoring or debtor financing, is where a third party company assumes a debt or invoice from another company. This involves either the sale at a discount of accounts receivable or other debt assets on a daily, weekly or monthly basis in exchange for immediate cash. It can also involve the charging of interest on the debt. The debt assets are sold by the exporter at a discount to a factoring house, which thereby assumes part of risks of the account receivable. Factoring in international trade is the discounting of a short-term receivable (up to 180 days). The exporter transfers title to its short-term foreign accounts receivable to a factoring house for cash at a discount from the face value. It allows an exporter to ship on open account as the factor assumes the financial liability of the importer to pay and handles collections on the receivables. The factoring house usually works with consumer goods.
176. Factoring therefore relieves the first party of a debt for less than the total amount providing them with working capital to continue trading, while the buyer, or factor, chases up the debt for the full amount and profits when it is paid. The factor is required to pay additional fees, typically a small percentage, once the debt has been settled. The factor may also offer a discount to the indebted party. Essentially factoring transfers the ownership of accounts to another party that then chases up the debt. In the absence of private sector players, Governments can facilitate the establishment of a state-owned factor; or a joint venture set-up with several banks and trading enterprises. The peak international body is Factors Chain International (FCI) which is a body that International Factors deal with¹⁷.
177. Factoring is divided into import factoring and export factoring. Details of each are set out below.

Export factoring

178. In export factoring, the Factor deals directly with the seller of the goods. In this case the debt is a 'recourse' debt, and if the seller goes under, or the purchaser does not pay, the local Factor assumes the risk. In Export factoring the local Factor, deals with a counterparty Factor, who will check out the creditworthiness of the purchaser.
179. In this case the seller will provide documentation to show that the goods have been shipped prior to payment. Payment is usually made on an 80/20 split, 80% is paid to the seller at the time of the invoice/goods shipment. This amount is loaned to the seller by the Factor and interest charged until the purchaser pays. When the purchaser pays the 100% of the invoice

¹⁷ <http://www.fci.nl/about-factoring/how-does-it-work>

the Factor pays the seller the other 20% of the invoice. There is usually a small activity fee (around 1% of the invoice that is also charged, so it is typically a 80/1/19 split!)

Import Factoring

180. Import factoring is a reverse of the scenario set out for export factoring, but differs slightly. The local Factor will insure the risk on a usually 80% basis, and will therefore carry a 20% risk. This is called a 'non-recourse debt'. The local Factor will check out the bona fide credit history etc. of the purchaser of the goods. Credit lines etc are usually established.
181. The foreign factor will examine the bills of lading shipping documents etc and confirm with the Local Factor. International factoring (as opposed to domestic factoring) have more to do with the counterpart abroad and with insuring risk.

Vulnerabilities

- Often the factor may be left with losses after the so-called traders disappear, after having indulged in TBML, by moving illicit funds through 'sham trade'.

Forfaiting

182. Forfaiting is the purchase of an exporter's receivables (the amount importers owe the exporter) at a discount by paying cash. The purchaser of the receivables, or forfaiter, must now be paid by the importer to settle the debt. As the receivables are usually guaranteed by the importer's bank, the forfaiter frees the exporter from the risk of non-payment by the importer. The receivables have then become a form of debt instrument that can be sold on the secondary market as bills of exchange or promissory notes. Forfaiting is a method of trade financing that allows the exporter to sell its medium-term receivables (180 days to 7 years) to the forfaiter at a discount, in exchange for cash. With this method, the forfaiter assumes all the risks, enabling the exporter to extend open account terms and incorporate the discount into the selling price. Forfaiters usually work with capital goods, and large projects.

Vulnerabilities

- These instruments (exporter's receivables) are capable of being sold on the secondary market as 'bills of exchange' or 'promissory notes', provides a money launderer with an enhanced mechanism to move value.
- If the launderer, through collaboration inflates the value of receivables more value can be moved.

Pre-Shipment Finance

183. This is financing for the period prior to the shipment of goods, to support pre-export activities like wages and other costs. It is especially needed when inputs for production must be imported. It also provides additional working capital for the exporter. Pre-shipment financing is especially important to smaller enterprises because the international sales cycle

is usually longer than the domestic sales cycle. Pre-shipment financing can take the form of short-term loans, overdrafts and cash credits.

Vulnerabilities

- Pre-shipping finance especially its application to ‘inputs for production that must be imported’ provides the money launderer with an ability to engage a third party in another jurisdiction thus moving value to all venues in which the criminal syndicate are operating and thus widen the scope for TBML.
- Short-term loans, overdrafts and cash credits may allow launderers to make business claims on the relevant revenue agencies in those countries thus supplementing their reasons for the value they hold.

Post-Shipment Finance

184. This is financing for the period following shipment. The ability to be competitive often depends on the trader’s credit term offered to buyers. Post-shipment financing ensures adequate liquidity until the purchaser receives the products and the exporter receives payment. Post-shipment financing is usually short-term.

Vulnerabilities

- Although this method of financing is short term by nature, cash is usually supplied at time of sale, hence such pretence would not raise suspicion unless intelligence arouse such suspicion.

Buyer’s Credit

185. A financial arrangement whereby a financial institution in the exporting jurisdiction extends a loan directly or indirectly to a foreign buyer to finance the purchase of goods and services from the exporting jurisdiction. This arrangement enables the buyer to make payments due to the supplier under the contract.

Vulnerabilities

- Financing of the importer by an institution in the exporter’s jurisdiction widen the scope for TBML, since to exercise due diligence in a foreign jurisdiction may be more difficult.
- The money launderers seek this credit to help minimise risk of confiscation.
- If a financial institution has a stake in the trade, law enforcement has to account for that stake in any ensuing action unless the law enforcement action can demonstrate that the financial institution is complicit.

Supplier’s Credit

186. A financing arrangement under which an exporter extends credit to the buyer in the importing jurisdiction to finance the buyer’s purchases.

Vulnerabilities

- The utilisation of *Supplier's Credit* arrangements provide a mechanism to move significant amounts of value in most forms irrespective of whether or not the trade is legitimate, inflated or phantom.
- This financing arrangement need not involve a financial institution, although to reinforce the veneer, engaging the third party may be undertaken in ML schemes.
- If the buyer and seller are in collusion, this mechanism is a channel for TBML.

Structured Commodity Finance

187. Structured commodity finance (SCF) focuses on three main commodity groups: metals & mining, energy, and soft commodities (agricultural crops). It is a financing technique utilised by commodity producers and trading companies conducting business in the emerging markets. SCF provides liquidity management and risk mitigation for the production, purchase and sale of commodities and materials. This is done by isolating assets, which have relatively predictable cash flow attached to them so as to estimate their present value. The corporate borrowers use such assets to mitigate risk and secure credit from a lender. A corporate therefore borrows against a commodity's expected worth.
188. If all processes go to plan, then the lender is reimbursed through the sale of the assets. If not then the lender has recourse to some or all of the assets. Lenders charge interest on any funds disbursed as well as fees for arranging the transaction. SCF funding techniques include those techniques previously mentioned, namely, pre-export finance, countertrade, barter, and inventory finance. These solutions can be applied across part or all of the commodity trade value chain: from producer to distributor to processor, and the physical traders who buy and deliver commodities.
189. As a financing technique based on performance risk, it is particularly well-suited for emerging markets considered as higher risk environments.¹⁸

USEFUL TIPS FOR TBML INVESTIGATORS

190. Whilst it is suggested that trade financing and especially open account facilities can provide a reasonable veneer for the activities of the money launderer, it is still costly to set up and maintain. It is important to emphasise that if the veneer protecting the criminal mischief is cracked the trail is relatively easy to follow. In conducting Trade business, legitimate companies also require mechanisms to track their activity and example of this include:

Export Credit Insurance

191. In addition to financing issues, traders are also subject to risks, which can be either commercial or political. Commercial risk arises from factors like the non-acceptance of goods by buyer, the failure of buyer to pay debt, and the failure of foreign banks to honour

¹⁸ <http://www.tradefinancemagazine.com/boutUs/tub/WhatIsTradeFinance.html>

documentary credits. Political risk arises from factors like war, riots and civil commotion, blockage of foreign exchange transfers and currency devaluation. Export credit insurance involves insuring exporters against such risks. Export Credit Insurance is not likely to be something of interest to either the professional or novice money launderer as it adds additional costs seen as unnecessary and therefore should be something actively examined by the TBML investigator.

Trade Services Utility

192. In response to the development of open account trading, the organisation SWIFT launched the TSU (trade services utility), a collaborative centralised data matching utility, which allows banks to build products around its core functionality to improve the speed and flow of open account trade. This is helping banks re-intermediate themselves into these trade flows.
193. This development may in fact be of assistance to TBML investigators as it can help identify ‘red flags’ discussed in this paper. There are a number of other mechanisms capable of collecting data including revenue departments, customs departments, accountancy data, general financial data, market data, topography data and social media data. The issue to date when it comes to investigating and prosecuting TBML is that this data is still stored in a dispersed way.
194. TBML investigator will need to devise ways in which to gather this data, have it integrated and then analysed against the concept of time and distance and normality. It is only then will enough criminal activity will be identified and actioned to cause a change in general attitude which is all that can be expected.
195. The project team believes that two critical elements that might be used to crack the veneer created by the ML syndicates is for investigators to consider the concepts of time and distance in ML schemes. Investigators need to commence building a time line of all known events surrounding the activities of the syndicates being investigated. Information and intelligence gathering is paramount to this endeavour and interaction with the financial institution is essential. These institutions have a vested interest in ensuring the trade in which they are engaged is legitimate. These discussions may be hampered by domestic privacy restrictions so legislative change may be necessary before significant headway can be made.
196. Distance is the other key concept. Inconsistencies in documentation, excessive complication and unrealistic time frames all contradict that path of least resistance and should therefore raise suspicion.

Partnership with Private Sector

197. An outreach programme can help create awareness about the TBML vulnerabilities to which private business are exposed. Not only the private sector can install preventative measures but in turn disseminate useful information for the ML investigators. U.S. Immigration and Customs Enforcement (ICE) have introduced many new initiatives aimed

at analysing and combating the movement of illicit funds by bulk cash smuggling, TBML, courier hubs, money services businesses (MSBs), charities, and alternative remittance systems. These initiatives include:

- Operation Cornerstone, (founded in 2003 – a private industry partnership and aggressive outreach program) (<http://www.ice.gov/cornerstone/>).
- Operation Cornerstone detects and closes down weaknesses within U.S. financial, trade and transportation sectors that can be exploited by criminal networks. Law enforcement entities share criminal typologies and methods with businesses and industries that manage the very systems that terrorists and criminal organizations seek to exploit. This sharing of information allows the financial and trade community to take precautions to protect itself from exploitation. In return, ICE receives information to more thoroughly investigate these complex and sophisticated criminal schemes.

Inter-sectoral & cross border transaction data analysis

198. Cross referencing of trade data with that of trade finance is useful to discover trade anomalies which can in turn lead to TBML investigations. It is important that such anomalies are investigated in the light of information obtained from international trading partners. In 2004, the US ICE established a number of Trade Transparency Units (<http://www.ice.gov/trade-transparency/>) to combat TBML and other import-export crimes. These TTUs rely on data analysis of international trade patterns to identify potential TBML activities. The TTUs in the United States use the ‘Data Analysis and Research for Trade Transparency Systems’ (DARTTS), which allows investigators to view totals for merchandise imports and then sort on any number of variables, such as jurisdiction of origin, importer name, manufacturer name, and total value (US DHS 2010: 3). Through this, DARTTS identifies trade and financial transactions that are ‘statistically anomalous based on known facts and user queries’, rather than being used to ‘predict future behaviour’ or to ‘profile’ traders (US DHS 2010: 3) The data that DARTTS uses is collected from US Customs, the US Bureau of Census (where historical trade data is held), FinCEN and foreign government bodies, and consists of information gathered from those required to complete import-export forms (US DHS 2010). From this collection of data, three types of analysis are conducted by DARTTS:

- *International Trade Discrepancy Analysis* — US and foreign import/export data are compared to identify anomalies and discrepancies that warrant further investigation for potential fraud or other illegal activity.
- *Unit Price Analysis* — trade pricing data are analysed to identify over- or under-valuation of goods, which may be an indicator of TBML or other import-export crimes.
- *Financial Data Analysis* — financial reporting data (the import/ export of currency, deposits of currency in financial institutions, reports of suspicious financial activities and the identities of parties to these transactions) are analysed to identify patterns of activity that may indicate illegal ML schemes (US DHS 2010: 110).

199. When conducting this analysis, the TTU in the United States relies heavily upon information gathered from other countries.

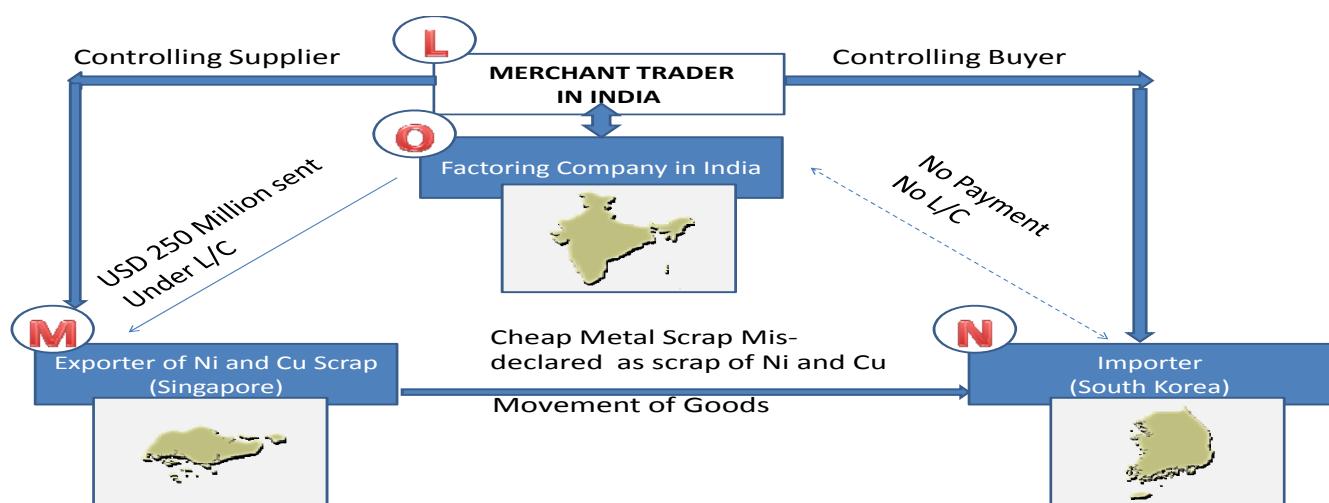
CHAPTER IV - CASE STUDIES

200. Case studies best illustrate the complex and simple forms of TBML. The cases studies set out below, while being based upon the experience of various jurisdictions, present the facts in simplified manner, through narration and diagram, highlighting the modus operandi and red flags.
201. The FATF Paper 2006 on the TBML focused on trade based techniques used in TBML. The techniques which have been mentioned are over/under invoicing of goods, multiple invoicing of goods, over/under shipments of goods and false description of goods. Besides identifying these elements of trade that facilitate TBML, the seven case studies presented in this Chapter also bring-out the mechanisms of trade finance used in TBML.
202. The cases studies have been presented in four parts. The first part comprises the modus operandi in several simple steps. The second part demonstrates the essence of modus operandi though a diagram. The third part relates to giving comments on the case study so as to highlight the essential features. Finally, a list of red flags which can be inferred from the case study is included.

CASE STUDY 1 (Information provided by India)

- Company L located in India entered into a trade arrangement called merchanting trade with Company M located in Singapore and Company N located in South Korea.
- Trade arrangement required that Company L act as an intermediary between Company M and Company N.
- Trade finance arrangements required Company L to make payments to Company M and receive payments from Company N.
- Goods involved in the transaction i.e. “Nickel & Copper Scrap” were to be directly shipped from Company M to Company N.
- To secure payment for Company M, Company L got Letters of Credit (L/C) issued in favour of Company M (import leg).
- Company L entered into an agreement with Company O in India to get such Letters of Credit issued by Company O in favour of Company M for a charge of commission by Company O (for the import leg of the transaction).
- Company O secured receipt of payments for the export leg of the transaction (payment from company N) by obtaining bonds and guarantees furnished by Company L.
- On the advice of Company L, Company O opened L/Cs in favour of Company M as & when Company M directly shipped scrap consignments to Company N.
- Company M on shipment of the goods to Company N, got such Letters of Credit discounted with the bank.

- For the initial shipments, Company N accepted the goods and made payments to Company L. For payments made through Letters of Credit by Company O to Company M, Company L compensated Company O through payments received from Company N.
- After the successful completion of the initial rounds of transactions, Company N defaulted on payments to Company L even though the Letters of Credit opened by Company O at the behest of Company L in favour of Company M had already been discounted by Company M.
- The trade finance arrangement for the import leg of the transaction was completed between Company M & Company O by way of payment to beneficiary (Company M) but for the export leg of the transaction, due to non-acceptance of goods by Company N, no payment was received from Company N to Company O through Company L.
- On investigations it was found that Company L was in league with Company M & Company N. Company O was left with heavy losses.
- Predicate offences of cheating and criminal conspiracy were involved and merchanting trade and its finance arrangements were used to launder the criminal proceeds.



Commentary:

203. This case study reveals the misuse of trade and trade finance to generate proceeds of crime and to launder funds. Unlike conventional methods of laundering the money in which generally, the proceeds of crime is structured into the financial system, in this case proceeds of crime were generated through mis-declaration of the goods, forgery of trade documents and the introduction of a third party in a jurisdiction other than the two trading countries. The techniques deployed to indulge in TBML were mis-declaration of goods and related party transactions which were not independent corporate structures.
204. In this case study, Letters of Credit (trade finance) were arranged only for the import leg of the transaction and not for the export leg. Thus trade finance mechanisms became

vulnerable to laundering the criminal proceeds. The lack of proper due diligence by the factoring company in assessing and acknowledging the risks and the lack of duty of care by banks in undertaking the proper scrutiny of the documents facilitated the commission of crime and TBML.

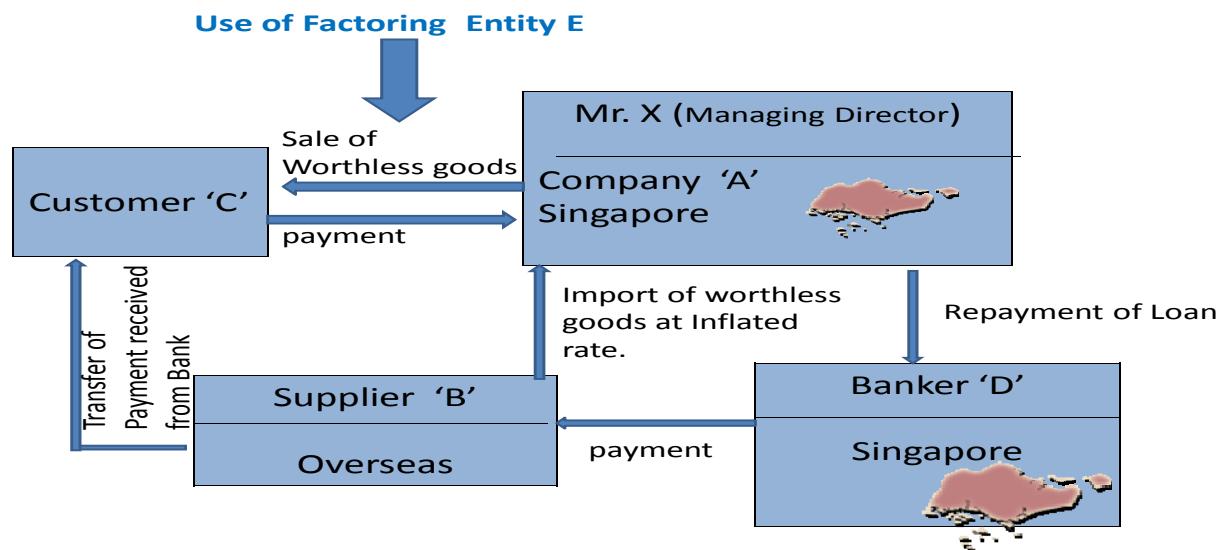
Red Flags

1. Mis-declaration of the goods - both of quality and type.
2. The third party located in a third jurisdiction acted as an intermediary, even though goods were in fact capable of being supplied from one jurisdiction to another jurisdiction directly.
3. Both supplier and buyer of the goods are related to the intermediary or the buyer and /or the seller all belong to the same group of companies.
4. Risk exposure of the factoring company was not commensurate with expected norms.
5. Intermingling of different types of trade finance arrangements for different segments of trade transactions.

CASE STUDY 2 (Information provided by Singapore)

- Mr X was the managing director of a Company A listed on a stock exchange outside Singapore. Company A indulged in trade of integrated circuit chips.
- In 2001, Company A began experiencing cash flow problems due to an industry downturn.
- Mr. X tied up with Supplier B located abroad and Customer C to collude in a fraudulent scheme.
- Overseas Supplier B supplied worthless goods to Company A and raised grossly inflated invoices.
- Company A submitted trade credit applications to Banker D for disbursing invoiced value to Supplier B.
- Supplier B then transferred the funds corresponding to the inflated value to Customer C.
- Company A then “sold” these worthless goods to Customer C again at inflated value.
- In order to realise the invoiced value of the goods “sold” to its accomplice Customer C before the expiry of the credit period, Company A discounted the invoices raised to Customer C with Factoring Entity E.
- The payment received by Company A was then used to repay the trade credit which it had obtained from its Banker D.
- The Customer C paid the factoring company when the credit term was due.
- Through this scheme, Company A and its accomplice suppliers and customers defrauded various banks and a factoring company into disbursing funds.
- Mr X was charged with cheating offences for his role in defrauding bankers and the factoring company.

- Mr. X had also exploited the international trade system to channelize the disbursements from Singapore back to Company A after a series of cross border sham purchases / sales involving the same worthless goods.



Commentary:

205. In this case study, international trade was mis-used to fraudulently obtain funds from banks and from a factoring company and launder proceeds through trade channels. By resorting to cross-border transactions, it became easy to deceive the banks and the factoring company as it is generally difficult to verify the genuineness of the other end of the international trade transactions pipeline. Further, by using accomplice suppliers and accomplice customers, the entire movement of mis-declared goods was fully controlled by the main person Mr. X and thereby it escaped detection for six years. The trade finance channels of the bank, trade credit, open accounting and factoring were all used to circulate the funds.

Red Flags

1. Mis-declaration of value (over-valuation) of goods.
2. Series of cross border transactions in the same goods between related companies.
3. Use of factoring companies to finance trade transactions between related companies.
4. Despite an industry-wide recession, the ability of a company to generate large funds from trade.
5. Direct payment through open accounting from banks to overseas suppliers on trade credit application of the domestic trader.

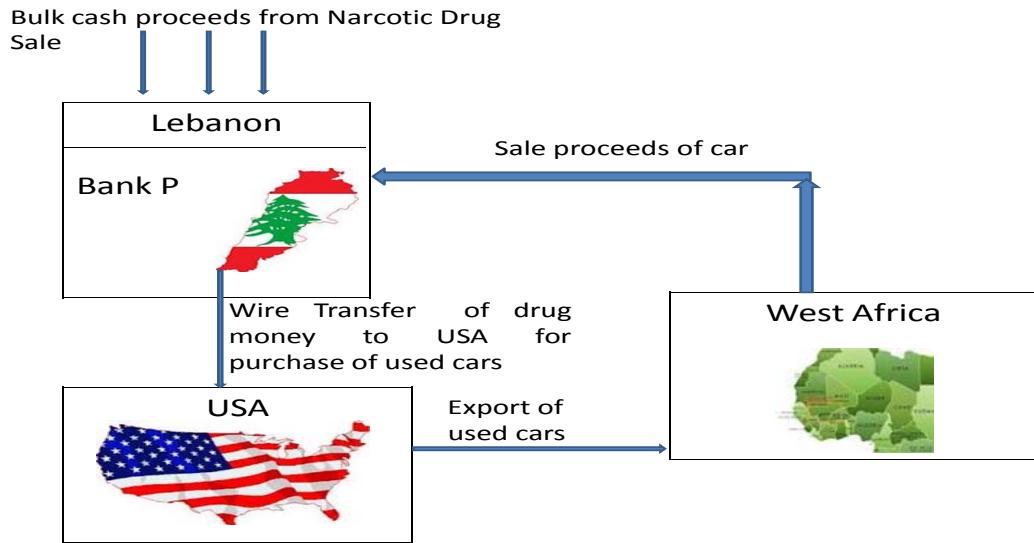
CASE STUDY 3 (Information provided by USA)

206. Authorities in US had information that Bank P in Lebanon had been extensively used by an international drug trafficking syndicate controlled by individual Q for moving the proceeds of narcotics sales through TBML across the globe.

- The syndicate smuggled narcotics from South America to Europe and to the Middle East through West Africa.
- The kingpin Q of the syndicate organised shipments of 100 Tonnes of Cocaine from South America and laundered the proceeds of up to US \$ 200 Million per month, obtained from the sale of cocaine in Europe and Middle East.
- Proceeds of drug trafficking were moved and laundered through-
 1. bulk cash smuggling (cash couriers) ;
 2. use of exchange houses including one owned by Q.
 3. use of accounts of family members of “Q” in several branches of Bank P ;
- Bulk cash deposits were made by Q and his associates into exchange houses which in turn deposited the money into several accounts maintained in Bank P.
- In fact Q owned and controlled one of the exchange houses located in the same building as a branch of Bank P. Certain employees of Bank P were in league with Q.
- Two distinct TBML schemes were used by the syndicate to move and launder illicit funds through trade.

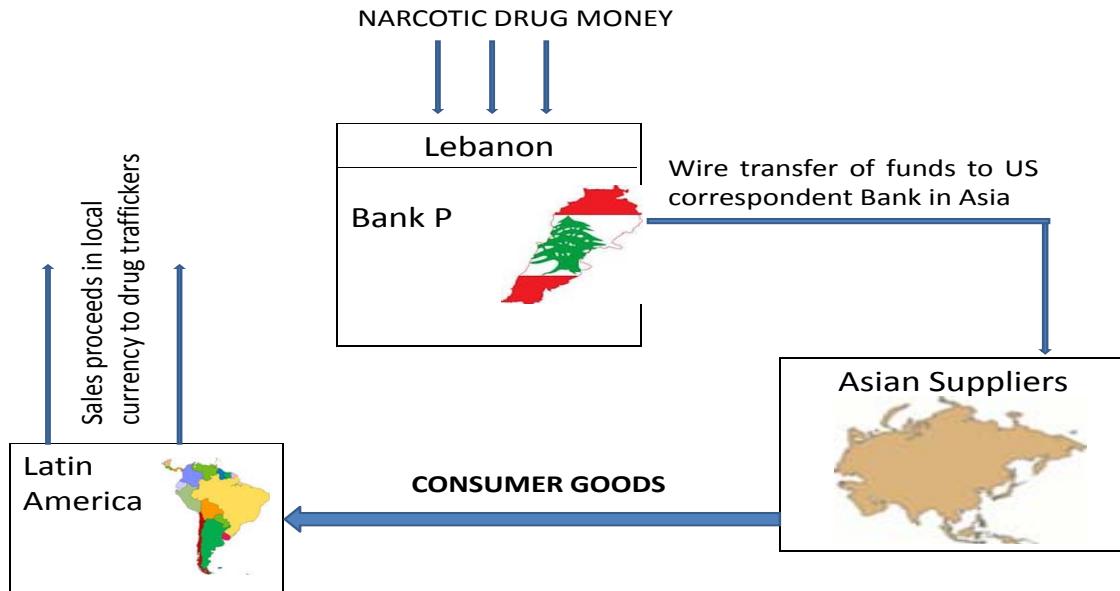
SCHEME A

- In the first scheme, wire transfers from Bank P were sent to banks in U.S. for the purchase of used cars in the U.S.
- The car dealerships were operated by individuals who had been separately identified in drug-related investigations.
- The recipients of these funds purchased vehicles in the United States, which were then shipped to countries in West Africa and elsewhere.
- The proceeds generated from sale of used cars were ultimately repatriated back to Lebanon.
- The money generated from illicit drug trade was thus fully integrated into the financial system through TBML scheme involving trade in used cars.



SCHEME B

- In the second scheme, Individual R, who owned a wide network of companies which were dealing in consumer goods in Asia and in other regions provided consumer goods for TBML.
- Although based in Asia, individual R had centralized his banking operations in Lebanon, particularly through the use of over 30 accounts at Bank P.
- Individual R received funds in his accounts from the kingpin Q and R also exchanged funds with the Latin American members of the drug syndicate.
- In the TBML scheme used by them, the proceeds generated in local currency from the sale of imported consumer goods were deposited in individuals' accounts in the local banks.
- This completed the Latin America-based Black Market Peso Exchange ML cycle, and allowed for the repatriation of proceeds for the Latin American drug producers.



Commentary:

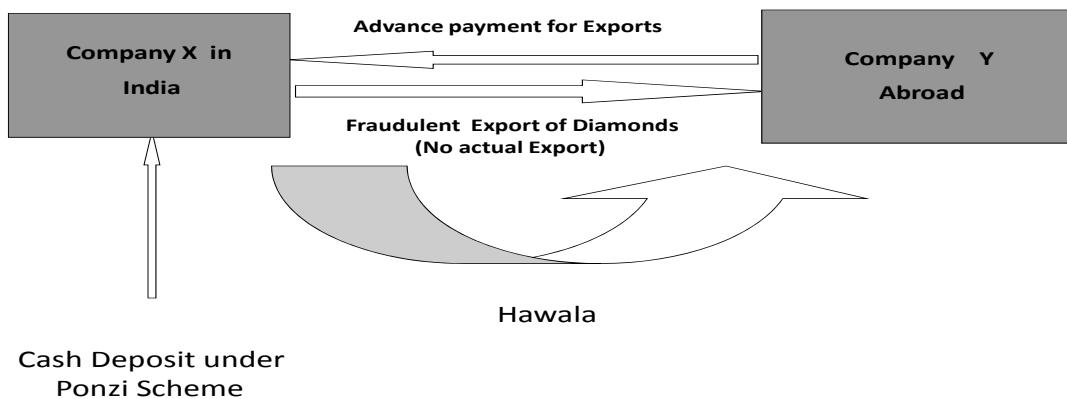
207. The proceeds of narcotics drug money were first placed into the financial system of a jurisdiction where the AML regime was not adequately strong. The syndicate targeted jurisdictions where the AML regime may not have been as strong as Europe. The criminal syndicate was able to influence individuals on the operations of its bank as well as those of the exchange houses. The proceeds of drugs was layered and moved through the use of international trade. Round tripping of the money and its laundering occurred through abuse of trade and trade finance (open accounting system). Interestingly, both the TBML schemes were being operated concurrently and funds were moving between the two schemes, by use of the Money Exchange House established by Q.

Red flags

1. Trade in commodities like used cars and consumer goods for which valuation can be manipulated.
2. Payment for imports received from banks located in a third jurisdiction, whereas goods are traded between two other countries.
3. Cash deposits made in bulk in certain bank accounts from high risk customers like exchange houses.
4. Cross border wire transfers from sensitive jurisdictions without adequate explanation of the considerations involved for such transfers.

CASE STUDY 4 (Information provided by India)

208. Company X located in India received advance remittance from Company Y located in foreign jurisdiction for a promise to export consignments of diamonds.
- Company X filed falsely declared and forged documents with the bank to show the overvalued exports of diamond without having made any shipment.
 - To give a colour of authenticity, Company X also fabricated purchase invoices to show local purchases of diamonds, whereas no purchases of diamonds had actually ever taken place.
 - Company X received export payments through trade finance arrangements via an open accounting system from Company Y.
 - Company X had received substantial cash deposits in India from the public on the promise of high returns via a fraudulent Ponzi Scheme.
 - Company X transferred large amounts of public deposits to company Y through hawala (Alternative Remittance System).
 - Company X indulged in round tripping by receiving back as export earnings the financial value which it had transferred abroad as hawala.
 - Predicate offences of cheating, criminal conspiracy and forgery of documents occurred.



Commentary:

209. In this case, the proceeds of crime were generated through the fraud perpetrated on general public under a Ponzi scheme which was then laundered through fraudulent and bogus exports. Such proceeds of crime were transferred abroad through alternative remittance system. Money was received back from abroad through banking channels as export

remittance. Round tripping of money and its laundering occurred through TBML. Company X had a network of associate companies established in many jurisdictions abroad. In this case, on the trade side, overvaluation of export goods and under shipment (no shipment) of goods was done. Proceeds of Crime were moved abroad by using alternative remittance system (hawala) and then round tripping occurred through open accounting system.

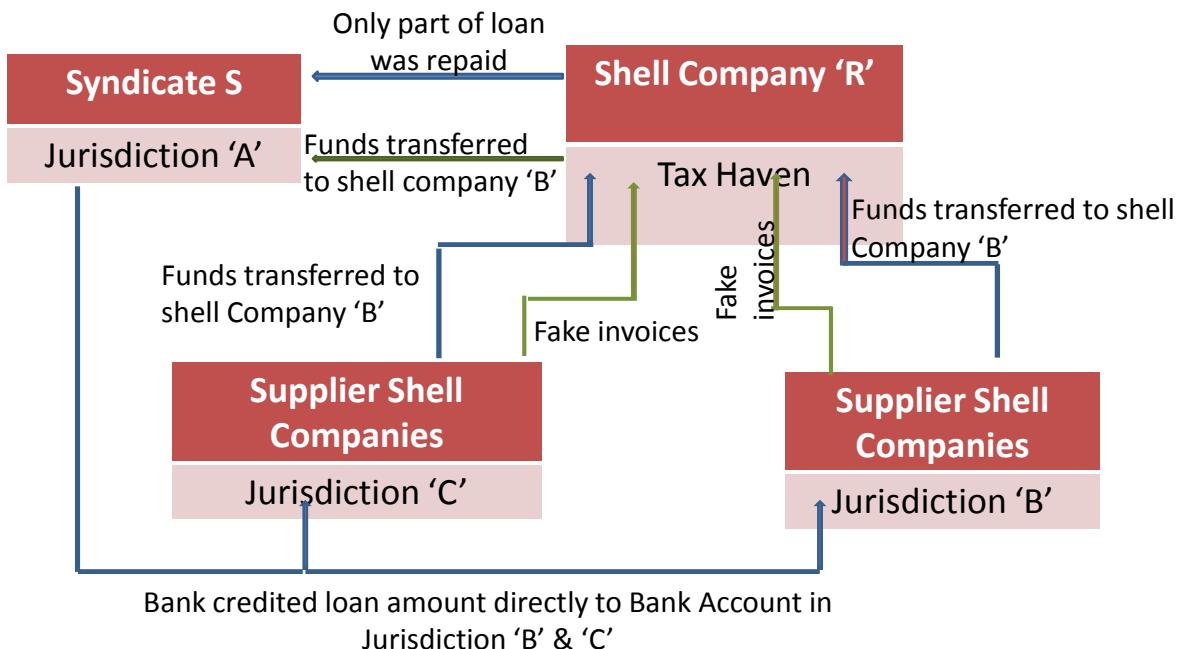
Red flags

1. Export of goods without any corresponding purchase of raw materials or finished goods.
2. Sudden increase in volume of exports by a new exporter.
3. Advance inward remittance against exports without justifiable reasons.
4. Export documents which are not duly authenticated by export regulating agency were accepted by the bank.

CASE STUDY 5 (Information provided by Macao, China)

210. Criminal Syndicate S had a regional base in Jurisdiction A.

- Syndicate S registered a Shell Company R in a tax haven jurisdiction.
- Syndicate S set up a number of “supplier” shell companies in Jurisdiction B and Jurisdiction C.
- Syndicate S opened accounts in more than 10 banks in Jurisdiction A and applied for high value loans.
- Shell Company R claimed that the company dealt with cross-border trading activities, and thus purchased goods from Supplier Companies in Jurisdiction B and in Jurisdiction C.
- Shell Company R obtained trade credit from the banks in Jurisdiction A on the strength of invoices for the purchases made from Jurisdictions B & C.
- The banks in Jurisdiction A directly credited loan amounts at the behest of Company R into the bank accounts of the “supplier” shell companies in Jurisdiction B and in Jurisdiction C.
- On receipt of funds the “supplier” shell companies immediately transferred the funds through a circuitous route to Shell Company R and to other accounts controlled by Syndicate S.
- Shell Company R used the funds for part repayment of loans.
- The fake transaction cycle engendered outstanding non-performing loans for banks in Jurisdiction A.



211. **Commentary:** In this case study, it is observed that cross border trade was mis-used by a criminal syndicate to move value between shell companies located in different jurisdictions. There was use of a Tax Haven jurisdiction to take advantage of relaxed AML regime and to avoid detection. The veneer of international trade was created to conceal collusion among related companies located in different jurisdictions. The trade finance mechanism of raising bank loans (trade credit) against fake invoices could occur due to limitations to verify the credibility of overseas suppliers. Wire transfers made to such related suppliers resulted in losses to banks. Thus a Criminal Syndicate could indulge in TBML in the absence of cross-verification of trade data and financial data.

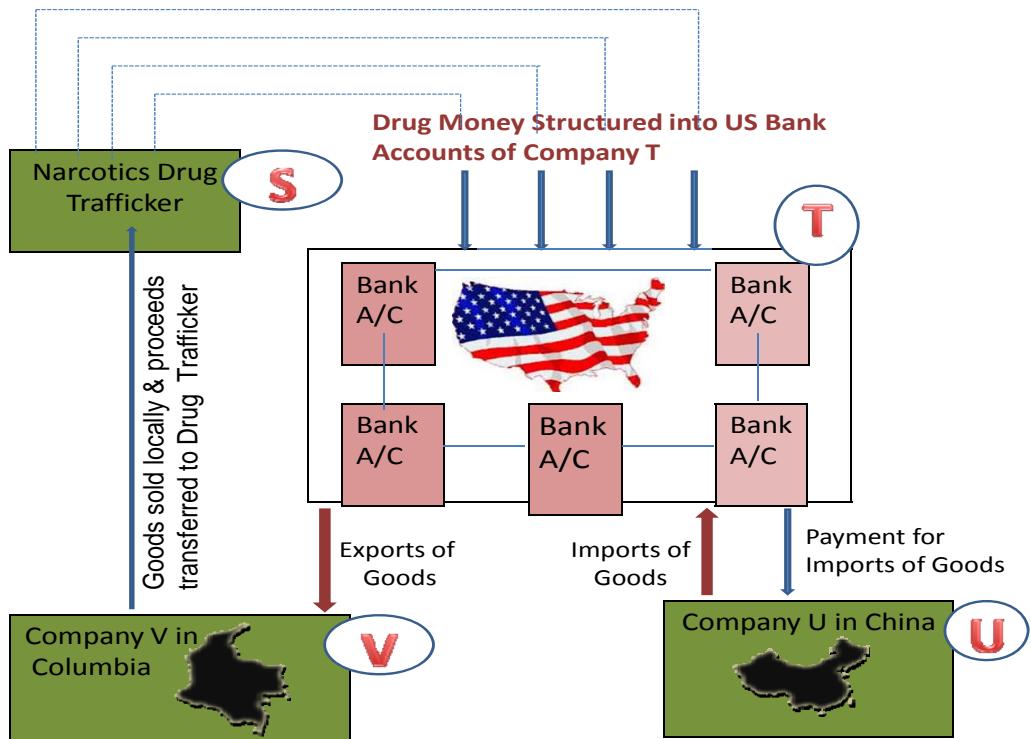
Red Flags

1. Use of corporate structure of shell companies located across the jurisdictions.
2. Registration of a trading company in a tax haven even though its business relates to another jurisdiction.
3. Mismatch between trade documents like bill of lading, import bill, invoices and trade finance documents (trade credit applications).
4. Direct payments by banks to overseas suppliers who are related parties without adequate verification of the authenticity of such suppliers and without verifying trade transactions.

CASE STUDY 6 (Information provided by USA)

212. Toy Company T of Los Angeles, USA was receiving cash generated from trafficking of narcotics by Columbian drug cartel S.

- Company T received such cash by two methods - in some cases, people affiliated with drug traffickers simply dropped cash at the company offices in downtown Los Angeles; the second method involved cash deposits made directly into Company's bank account, sometimes by individuals located as far away as New York.
- During the four-year period, the investigation tracked more than \$ 8 million in cash deposits into the accounts of the Company T, and not a single transaction was for more than \$ 10,000.
- The bank accounts of Company T, were used to pay for import of toys into USA.
- The toys, viz. stuffed animals, including teddy bears and Topo Gigio dolls, were imported from Company U in China.
- The toys imported into US from China were again exported from the U.S. to Company V in Colombia.
- The Colombian pesos generated by the sales of toys by Company V were then used to reimburse the Colombian drug trafficker.
- TTU Colombia was deployed to investigate shipments of toys.
- The TBML investigation brought out structuring transactions to avoid reporting requirements, bulk cash smuggling and intimidation of witnesses. In addition, the toy Company T was charged with conspiracy to launder money.
- Five persons, including two owners of the Company T and a Columbia-based businessman were convicted and fined.



Commentary:

213. Cash obtained from the trafficking of narcotics was first structured into financial system through smurfing. Money was then used to import toys, thereby converting the proceeds of narcotics trafficking into goods. The imported toys were then re-exported to move that value to the desired jurisdiction, in lieu of the value of narcotic drugs. Thus international trade was used for layering and integrating the crime money and to disguise its illicit origin.

Red Flags

1. Payment for import is made through multiple accounts.
2. Credits into such accounts were made mostly through structured cash deposits, i.e. through smurfing.
3. Re-export of goods to sensitive jurisdictions.
4. Inadequate consideration received for re-exported goods.

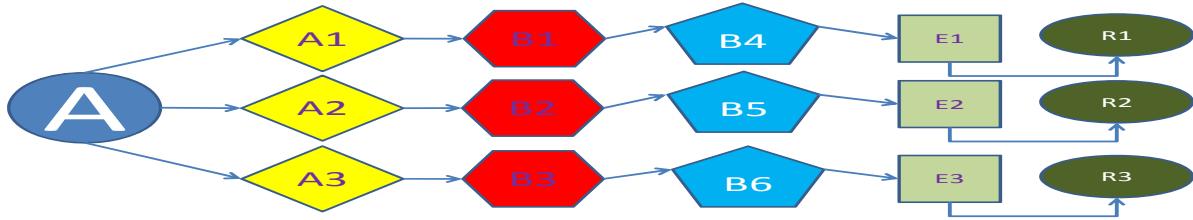
CASE STUDY 7 (Information provided by India)

214. This is a complex case which involves multiple techniques of ML by misuse of trade as well as trade finance mechanisms. The kingpin of this ML racket, called “A” in this case study, was laundering funds for Narcotic Drug cartels in Asia and South America using various techniques including cash couriers, money service bureaus, alternate remittance system (hawala) as well as through formal mechanisms of trade finance.

A. MISUSE OF LETTERS OF CREDIT (DOCUMENTARY CREDIT)

- An Indian national “A” was based in Dubai and had established a number of companies there, say A1, A2, A3.
- He also had a network which spread across many countries in Europe, Asia, Africa and USA.
- In Dubai, he got Letters of Credit (L/Cs) opened by various companies A1, A2 & A3, which were controlled by him, for Importers I1, I2 & I3 in Dubai.
- Exporters E1, E2 & E3 in India, as well as in other parts of the world, were the beneficiary parties for these L/Cs.
- For opening of L/Cs, “A” used his networking with Issuing Banks (B1, B2 & B3), who tied up with the Advising Banks (B4, B5 & B6). Advising Banks were responsible for transmission of funds into accounts of Exporters E1, E2 & E3.
- L/Cs were opened for amounts substantially higher than the real value of the actual consignments being traded.
- “A” arranged for trade documents to be prepared so as to make such documents acceptable to the Issuing Banks B1, B2 & B3 and Beneficiary/Advising Banks B4, B5 & B6.
- “A” in turn remitted the inflated value of exports to Exporters E1, E2 & E3 in India, as per the terms of L/Cs, after adding the drug money lying with him. Funds remitted to India were as per the terms of the L/C.
- After receiving the higher remittances, the Exporters E1, E2 & E3 retained the actual price of the goods exported and transferred the additional amount to the family members (R1, R2 & R3) of “A” in India and to his associates in other parts of the world.
- In a slight variation of this technique of misuse of L/Cs, “A” facilitated opening of L/Cs for importers (I1, I2 & I3), for commission. The L/Cs were opened at inflated values. He collected fair value of imports from the importers but remitted the inflated L/C amount of higher value to the Exporters E1, E2 & E3. The additional funds thus transferred were collected from Exporters, by associates of “A”
- Thus, by misuse of Letters of Credit, funds were moved across countries, in the guise of trade finance, after intermingling of drug money of criminal origin.

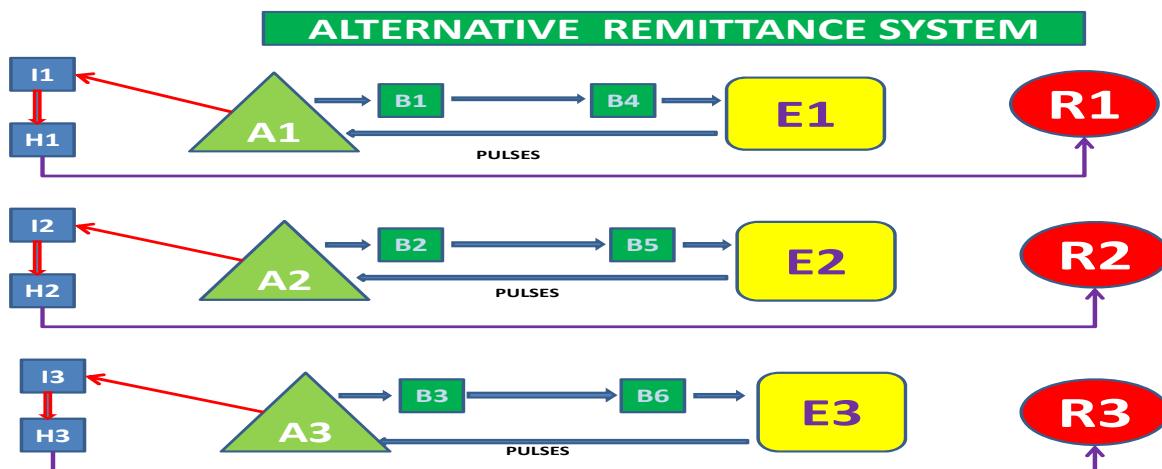
MISUSE OF L/C



B. USE OF ALTERNATIVE REMITTANCE SYSTEM

- “A” also utilised the services of alternative remitters (hawala operators) to move funds offshore.
- The legal framework in Dubai allows hawala to operate after registration with the UAE Central Bank.
- One way of use of Alternate Remitters by “A” was by funding those individuals who were visiting Dubai and were in need of funds in local currency, which he provided.
- The flush of money arising from the narcotics trade was enough to cater to large demands of individuals as well as of companies.
- On return to their home jurisdiction, these individuals made compensatory payments to the assigned agents of “A” located in their home jurisdiction, in currency of their home jurisdiction, thereby completing the clandestine movement of funds from Dubai to the home jurisdiction of these individuals.
- In another technique of use of Alternate Remitters, “A” facilitated trade in prohibited / restricted goods by falsifying trade documents by using his network of associates in India. Fake documents were prepared to fraudulently export pulses from India, when such exports were banned.
- To circumvent the restriction, the goods were mis-described in trade documents, which also enabled mis-declaration of value and thereby also enabled movement of excess funds to the exporting jurisdiction.
- He used alternative remitters (Hawala operators) H1, H2 & H3 to settle differential payments arising out of such trade in prohibited / restricted goods.
- Through the companies A1, A2 & A3 controlled by him, “A” first imported pulses into Dubai and made payments of contractual price to Exporters E1, E2 & E3, through banking channels / through L/C.
- Through his companies A1, A2 & A3, he resold the imported pulses at higher prices to the real importers I1, I2 & I3, who were in fact the genuine buyers of pulses in Dubai and elsewhere.

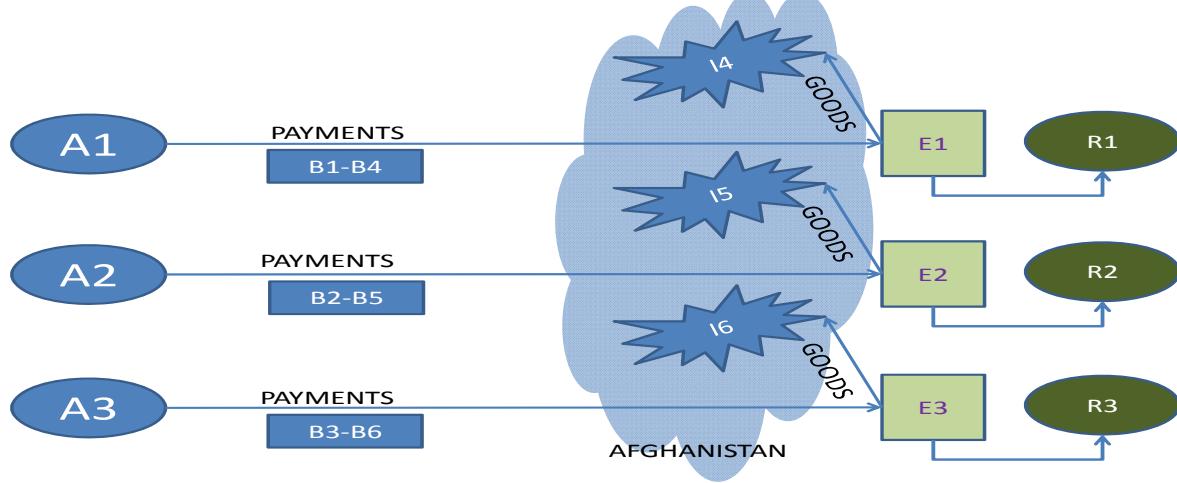
- Since A had pre-dated the contracts to allow for export of pulses from India after ban, he earned huge profits on resale in foreign market facing shortage of pulses.
- Profits earned on resale of pulses were also remitted to his agents R1, R2 & R3 through Alternate Remitters (Hawala operators) H1, H2 & H3.



C. USE OF OPEN ACCOUNT

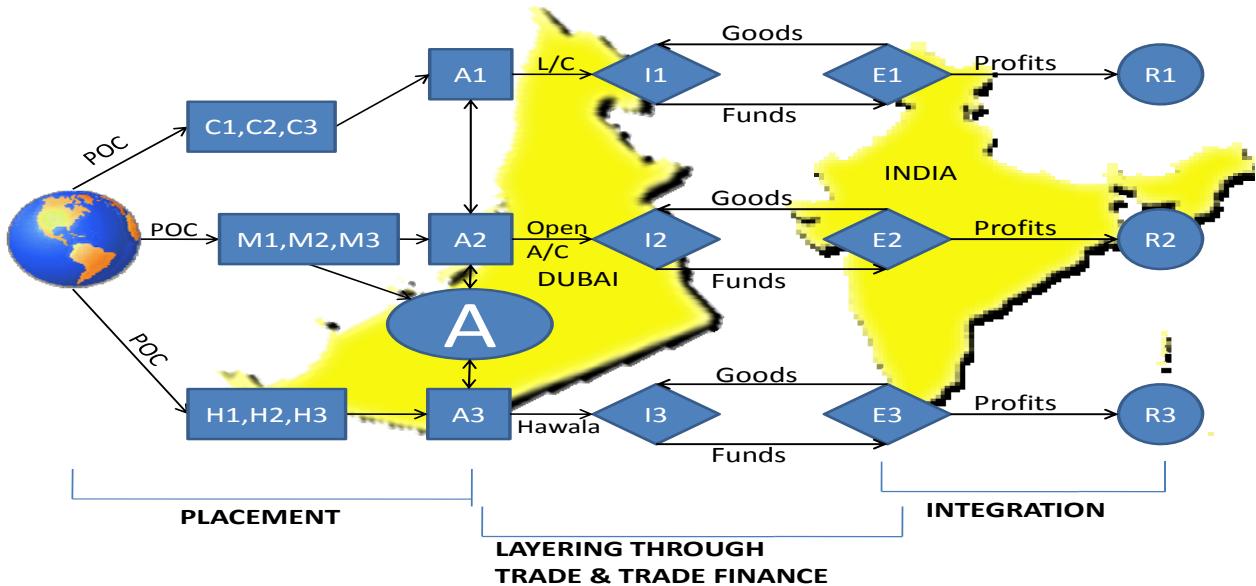
- “A” organised exports of artificial jewellery from India to various importers (I4, I5 & I6) in Afghanistan.
- Companies A1, A2 & A3 established in Dubai by “A” were declared as ‘Notifying Parties’ in trade documents for exports from India to Afghanistan.
- Payment was sent by A1, A2 & A3 through banks B1, B2 & B3 in Dubai to the accounts of Indian exporters E1, E2 & E3 in banks B4, B5 & B6 in India.
- The Indian exporters having received payments through open accounting paid the commission in cash for such exports to the agents of “A” in India, viz. R1, R2 & R3.
- Thus, in exchange for drugs originating from Afghanistan, “A” arranged for delivery of goods in that jurisdiction, by indulging in countertrade through trade manipulation.
- “A” used his companies A1, A2 & A3, by declaring them as ‘Notifying Parties’ in the trade documents to facilitate misuse of the trade finance mechanism of open account trading.

MISUSE OF OPEN ACCOUNTING



215. As stated at the outset, “A” was operating a very complex scheme of TBML, which can be summed up as follows:

- “A” indulged in laundering of proceeds from Narcotics trafficking and was based in Dubai. He opened a number of associate companies (A1, A2 & A3) to place money into the financial system by using the services of Cash Couriers (C1, C2,& C3) or Money Service Bureaus (M1, M2 & M3) or Alternative Remitters or Hawala Agents (H1, H2 & H3).
- To remit part of the proceeds of crime to his home in India, he tied up with Indian exporters (E1, E2 & E3).
- The Indian exporters (E1, E2 & E3) overvalued the exports to earn export incentives. The individual “A” used letters of credit, open accounting as well as alternative remittance system for movement of money between importers (I1, I2 & I3) and the Indian exporters E1, E2 & E3.
- The actual importers / users situated in the same jurisdiction as “A”, collected the goods exported from India and paid to “A”, the actual cost (true value) of the goods so imported.
- “A” in turn remitted the inflated proceeds of exports either against the L/Cs opened in the names of Importers (I1, I2 & I3) OR through open account OR through alternative remittance system to Indian Exporters (E1, E2 & E3).
- After receiving the higher remittances, the Exporters (E1, E2 & E3) retained the actual costs and conveyed the additional amounts to the associates (R1, R2 & R3) of “A” in India or elsewhere.
- The Exporters (E1, E2 & E3) gained from excess export incentives on overvalued exports and from being able to export banned goods and to inaccessible destination. The importers gained by acquiring goods which were not available through normal trade channel.
- “A” succeeded to launder criminal proceeds through trade finance.



Commentary:

216. In this complex case study, the funds originated from narcotic drug sales and fraudulent export incentives. The proceeds of crime were laundered by mis-declaration of description of goods and forgery of documents.
217. In the first illustration, the misuse of Letter of Credit mechanism of trade finance to disguise the movement of criminal funds in conjunction with overvaluation of goods, where both exporter as well as importers were in league, has been depicted.
218. In the second illustration, use of alternative remittance system (Hawala) has been explained, wherein funds were moved in connection with trade in prohibited / restricted goods. Using the international trade system, the criminal organisation was able to transfer illegal funds by using trade transactions to justify payment through the financial system.
219. In the third illustration, criminals have mis-used the open account trade finance system to launder the crime money. Movements of funds were disguised by using the third party remittance system. Mis-declaration of goods, over-valuation of goods and barter of goods were deployed, coupled with misuse of trade finance mechanisms of L/Cs and open account trading. Extensive use of Alternate Remitters was also resorted to move funds illegally across countries, at will.

Red Flags

1. Trade in banned/prohibited/restricted goods.
2. Overvaluation of export goods.

3. Exports to sensitive destinations of a new commodity by a regular exporter of some other commodity.
4. Introduction of notifying parties in trade documents without adequate explanation.
5. Export Remittances received from third parties.
6. Settlement of accounts for trade between two countries through a third jurisdiction.
7. Movement of abnormally large sums of money in various accounts of the individuals and companies which are not related to the nature of their business.

ALTERNATIVE REMITTANCE SYSTEMS:

220. Some of the case studies have referred to Alternate Remittance System. Therefore a brief write-up on Alternative Remittance System by Bangladesh in the box placed below explain the basic features of such a system whereby accounts are settled across the nations through compensatory payments made in local currency of trading partners for differentials arising between true value of goods involved in trade and formal means of trade finance.

ALTERNATIVE REMITTANCE SYSTEM

Alternative Remittance System i.e. “Hundi” or “Hawala” is a way to transfer funds through informal channels. Hundi means “trust” and hawala means “transfer related to money”. These are also often referred to as “underground banking system” or “parallel banking system” or “informal money transfer system”. Alternative remittance systems are financial services, traditionally operating outside the conventional financial sector, where value or funds are moved from one geographic location to another. (FATF Best Practice Paper 2006: Combating the abuse of Alternative Remittance System <http://www.fatf-afi.org/media/fatf/documents/recommendations>.)

Under-invoicing / over invoicing of goods and services are used in TBML to move funds across the borders not only to disguise its illicit origin but also to evade taxes and duties as well as get undue export incentives. To settle such over or under payments in international trade transactions, Hundi or Hawala mechanisms are used.

Hawala Operators (Hawaldars) or Hundi Dealers operate their business under a global network which helps them to do their business worldwide. Generally Hawala Operators or Hundi Dealers have other formal businesses, like exchange houses, travel agencies, import/export or shipping companies, grocery stores, gold and jewellery shops, textile or apparel shops and many other business establishments. Often these operators arrange fund transfers for a large number of migrant workers and immigrants, who send back their savings to the home jurisdiction. The popularity of their business lies in 3 C's viz. certainty, convenience and cheap. The transactions ensure that remittance reaches the beneficiary at an assigned address in definite time period, for a charge which is less than the transfer charges of formal system. Moreover the accounts among the Alternative Remittance System operators are settled by making compensatory payments in local currency to persons in the home jurisdiction who have been assigned by the partner hawala operator located abroad.

Since such hawala transactions remain largely unreported, there is no reliable data available on the magnitude of hawala / hundi / other alternative remittance systems. The significance of this trade finance mechanism as means to fill up the gap arising out of difference in actual trade value being exchanged and the amount transferred through formal mechanisms call-for larger awareness and focused training on the subject of Alternative Remittance System.

CONCLUSIONS

221. The first case study relating to ‘merchanning trade’ reveals how a third party located in a third jurisdiction ostensibly to facilitate trade between two other countries introduces TBML vulnerability in such trade transactions. The financing of different segments of trade through diverse mechanisms of trade finance can introduce risks in the trade transactions which are difficult to assess by financial institutions.
222. The second case study brings-out how the ‘carousel trade’ with the circulation of the same goods across the countries, call for close scrutiny of such transactions, for TBML. The mechanisms of financing trade through factoring and through disbursement of trade credit to overseas suppliers are fraught with risks for financial institutions unless due diligence is exercised about the overseas trading partner.
223. The third case study reveals how proceeds of crime can move to a jurisdiction where the AML regime may have weaknesses. It also shows the vulnerability arising from trade finance mechanisms in a system wherein the integrity of financial institutions has been undermined by weak application of fit and proper controls. The operations of ‘exchange houses’ owned and controlled by criminals coupled with ‘compromised’ working of a bank make trade finance mechanisms means for indulging in TBML.
224. The fourth case study demonstrates how proceeds of crime generated out of a ‘ponzi scheme’ were moved abroad though a variant of alternative remittance system viz. hawala. The TBML allowed for integration of proceeds as legal remittance.
225. The fifth case study reveals how the creation of veneer of international trade can help conceal the identity of true beneficiary from the financial institutions. The use of a corporate structure of shell companies located in sensitive jurisdictions of a tax haven can hoodwink the institutions of trade finance.
226. The sixth case study demonstrates yet another variant of alternative remittance system viz. Black Market Peso Exchange. The use of international trade acts as a lubricant to facilitate the cycle of laundering of narcotic drugs funds.
227. The seventh case study shows multiple forms of international trade and various mechanisms of trade finance which give inherent flexibility to criminals to adopt those forms and types which suit the demands of a situation. Such adaptability of these forms makes the detection and prevention of TBML a very challenging task.
228. The FATF Paper 2006 highlighted four basic techniques of TBML. These basic techniques relate to abuse of trade transactions and combine with techniques which abuse trade finance mechanisms for TBML to occur. Four of the trade finance techniques which can be inferred from the analysis in this Paper are following:
 - a) **Cash Inflow Based Payment:** Cash is structured into formal financial system through smurfing and other processes so as to make payments for international trade transactions. Trade finance payments are funded out of cash receipts of the financial institutions.

Normally cash will be received in one jurisdiction and payment through trade finance mechanisms will be made in the jurisdiction of trading partner. Thus the veneer of international trade is used to obliterate the signs of illicit origin of the payments.

- b) **Third Party Payment:** A third party is introduced preferably in a third jurisdiction, in the payment channel between two trading partners. Such third party may be a notifying party between consignor and consignee. It can also be a facilitator who acts as an intermediary for trade transaction as well as for trade finance mechanism. In still other situations such third party may either be a factoring or forfaiting entity. The technique involves making the process of due diligence to be conducted by domestic financial institutions more difficult to succeed.
 - c) **Segmental Modes of Payment:** Instead of opting to finance single trade transaction as a whole, the trade transaction is split into parts so that each part is financed through different modes of trade finance. The segmental modes of trade finance are used to fund the trade transaction. This technique is normally used wherein a third party is brought in between the exporter and the importer. For imports of goods, letters of credit mechanisms may be used and on the re-export of such goods to other jurisdictions wire transfers may be opted. The technique introduces different levels of risks for different segments of trade so that financial institutions are unable to make correct risk assessment of the trade finance payments.
 - d) **Alternative Remittance Payment:** Trade transactions which are vulnerable to TBML involve transfer of goods of which the true value does not correspond to the amount of payment transferred through formal mechanisms of trade finance. To finance such gap the alternative remittance mechanisms are utilized. The technique involves ‘squaring-off’ the ‘differential gaps’ by making compensatory payments in local currency to domestic persons assigned by the trading partner located abroad.
229. The techniques of trade finance abuse succeed only when they work in conjunction with the techniques of abuse of trade transaction. The segregation of sectors of finance and of trade prevents investigators from having an integrated approach. Isolated sectoral outlooks fail to raise ‘alerts’ about the TBML.

CHAPTER V - CONCLUSIONS

CHALLENGES

Growing Concerns

230. This study on TBML, done six years after the landmark FATF Study of 2006, has reaffirmed the conclusion of the earlier study that TBML is an important channel for criminal organizations and terrorist financiers to move money or value to disguise its illicit origin and to integrate it into the formal economy. The rapid growth in the global economy has made international trade an increasingly attractive avenue to move funds through goods and services. There are instances brought out in this Paper where the veil of international trade was deliberately created so as to launder the proceeds of crime. A number of publications on TBML during the intervening period of six years, as reviewed in Chapter-I, reflect the growing concern about its potential as a form of ML.
231. While various jurisdictions may have different levels of preparedness for identifying and investigating TBML, the general recognition of its existence and of its future potential underscore its significance. In fact, international trade remains a viable option for movement of value even in those jurisdictions that do not have a well-developed financial or banking sector. Thus, TBML is a concern for the international community even though it may presently impinge upon various jurisdictions without the same impact.

Complex Phenomenon

232. TBML is a complex phenomenon since its constituent elements cut across not only sectoral boundaries but also national borders. The dynamic environment of international trade imparts inherent flexibility for TBML to take multiple forms. To discern TBML from among the legitimate activities of international trade has become a daunting task. The features of the dynamic environment that also distinguish TBML from other forms of ML were identified in Chapter I. Such features include occurrence of TBML through intermingling of the trade sector with the trade finance sector in cross-border transactions. The foreign exchange market and the long supply chain make international trade more vulnerable to TBML.
233. To assist in recognizing the multiple forms of TBML, Chapter II of this Paper has enumerated specific characteristics of TBML. These attributes of TBML have been categorized into those relating to trade finance and to trade. For further simplification trade characteristics have been classified into four groups, namely: jurisdictions; goods; corporate structures; and, predicate offences. This methodology has allowed the Project Team to identify some ‘Red Flags’ which relate to specific characteristic of TBML.

Statistics and Data

234. Very few cases of trade base ML were reported. Thus statistics on detection of TBML and on TBML related STRs were also very limited. One of the major obstacles in devising future strategy to tackle TBML has been the lack of reliable statistics relating to it. Most jurisdictions do not distinguish TBML from other forms of ML. Hence they have reported that they do not maintain separate statistics for TBML. Moreover, the data on trade which

is largely collected by the Customs Department in most of the jurisdictions are oriented to serve purposes other than those of TBML. While the trade data is collected, maintained and analysed by the Customs they neither have a legal mandate to undertake TBML investigations nor do they have training and competence to utilize such data to combat TBML. Merely 25% of the jurisdictions have reported that TBML investigations were initiated on the basis of trade data.

235. As already pointed out in this Paper any strategy that focuses only on the trade sector leaving-out the corresponding elements of the trade finance sector would be inadequate to tackle TBML. Having a warehouse of trade finance data within financial institutions without correlating such data to that of the trade sector will not allow effective targeting of TBML. The Project Team holds that an isolated sectoral approach has not worked. An integrated holistic strategy to fight TBML is needed.

Sharing of Information

236. It is evident from the feedback from most of the jurisdictions that sharing of the information obtained domestically and internationally, has impediments. These impediments relate to inadequate and delayed response, restrictions on the use of the information furnished and insistence on confidentiality or secrecy clause which hamstring its evidential value. More than 50% of the jurisdictions reported having initiated TBML investigations on referrals from other agencies. Again, more than 50% of the jurisdictions reported seeking information from foreign jurisdictions. Laying platforms for effective and prompt sharing of information domestically and internationally can go a long way to combat TBML.

Trade Finance Vulnerabilities

237. Investigators in many jurisdictions face major challenges comprehending trade finance products and the implications of the use of trade finance in TBML. Chapter-III of this Paper attempts to be a ready reckoner for investigators to assist them to better understand trade finance products. This should assist investigators to begin to incorporate trade finance analysis in their investigations.
238. The trade finance products set out in Chapter III reveal a menu of choices that are available to genuine traders to facilitate trade. While the various trade finance products reduce trade transaction costs, their accessibility have also made them vulnerable to abuse.
239. Information relating to the trade finance products remain concentrated within the financial sector. Often the financial institutions are not aware of the significance of the information held by them to TBML investigators. A TBML investigator would need to obtain crucial data from financial institutions and correlate that with the information available in the trade sector so as to sieve ‘TBML-laced’ transactions from the predominantly genuine trade flows, the ‘noise’.
240. Chapter II of this Paper finds that jurisdictions were unanimous in highlighting a need for training to be provided to regulators regarding TBML vulnerabilities and risks associated with trade finance activities.

TBML Techniques of Trade Finance

241. The selection of Case Studies in Chapter IV has the intention of expounding the ‘modus operandi’ involved in TBML not only to throw light on the abuses in the trade sector but also to bring home the contributory anomalies of the trade finance sector. Several of these Case Studies reflect the confidence of the criminal syndicates in the impregnability of the veneer of the international trade they have created to move illicit funds and indulge-in TBML. The syndicates have not merely taken advantage of existing trade structures but have gone on to create new and additional structures for TBML.
242. A number of ‘Red Flags’ have been enumerated from each of the 7 Case Studies. The ‘Red Flags’ relate to trade as well as to trade finance. These red flags also corroborate the patterns identified for TBML in Chapter-II.
243. On the basis of the analysis of patterns, modus operandi and red flags, four techniques of TBML relating to trade finance have been formulated. The four techniques are: cash inflow payments; third party payments: segmental modes of payment; and, alternative remittance payments. These four techniques are those which have been more commonly used by criminal syndicates to support the practice of abusing the trade sector.

THE WAY FORWARD

244. Any strategy to prevent and combat TBML needs to be based on dismantling TBML structures, while allowing genuine trade to occur unfettered. A holistic approach, with emphasis on inter-agency coordination and international cooperation, needs to be universally adopted by the policy-makers. A comprehensive strategy which takes into account sectoral peculiarities, agency specialization and jurisdictional frameworks can only address the challenges in tackling TBML. Some of the steps that can form part of the way forward are discussed ad seriatim.

Standardization of Data and Statistics

245. Presently, statistics relating to TBML are not distinguished from those of other forms of ML. Data needed to combat TBML remain dispersed over various domestic sectors. Practices to compile and collate the statistics and data relevant to TBML vary among jurisdictions. There is a need to have common formatting of how TBML statistics are to be recorded and maintained so that trends are more easily identifiable.
246. If centralization of data and statistics is not presently possible then access of competent authorities to such statistics and data should be ensured. Cross-referencing data relating to trade and trade finance can be the starting point for adopting a risk based approach. Such an approach will not only lead to prioritization of limited resources but will also facilitate genuine trade without compromising the necessary governance over TBML. A risk based approach will help capture crucial trade data along with providing an ability to keep track of its corresponding payments data. To ensure efficient real time delivery of analysis the adopting of an electronic platform may be essential.

- 247. Monitoring foreign exchange may be an option for some jurisdiction in identifying anomalies to detect TBML. One of the findings of the project team is there exists an acute need to correlate trade data with the foreign exchange data of a jurisdiction so as to detect TBML and in particular identify cases wherein value is moved across countries in the form of goods without corresponding outgo of foreign exchange as its payment.
- 248. As an example, the development of a foreign exchange monitoring system by South Korea endeavours to cross-reference trade related data based on an electronic platform. By working out trends and past performances the system conducts some risk analysis to select risk-prone foreign exchange transactions for more specific scrutiny. There is a capacity to systematically target TBML.
- 249. Capturing data on trade and trade finance in standard format across the jurisdictions will ease cross-referencing for discovering trade anomalies leading to detection of TBML. Correlating such findings with systematic compilation of foreign exchange data can foster efficient strategies to prevent and combat TBML.

Domestic Task Forces

- 250. Multiple agencies are associated either directly or indirectly in fighting TBML. One way-forward to combine the respective competencies of relevant authorities for combating TBML is to form domestic task-forces. Task-forces focused on TBML investigations will need to have the ability to utilize the expertise of each agency without comprising its functional skills. It is suggested that to be successful the task-force must set its modes of communication and interaction. The operating platform should be electronic which allows for virtual exchange and management of large quantities of information. If a manual operating platform is adopted then task-force members must ensure regular interaction. The coordination achieved through a TBML task-force should go some way in providing effective support in intelligence, investigation and prosecution work relating to TBML.
- 251. Customs agencies hold trade data in most of the jurisdictions surveyed. Traditionally such data is used to detect and investigate Customs offences relating to smuggling and duty evasion. The regulators in the trade finance sector issue alerts on the basis of the data available within the sector for the use of financial institutions.
- 252. Law enforcement agencies responsible for investigating ML use the same tools to investigate TBML without any specialized training to undertake such investigations. These agencies work in isolation without the necessary inputs from Customs and Regulators. FIUs in most jurisdictions analyse and disseminate suspicious transaction reports on the information furnished by the financial sector without corresponding inflow from trade sector and foreign exchange control agencies (in those jurisdictions with such controls). Tax authorities exclusively focus on investigation relating to tax evasion. Transfer pricing audits conducted by such authorities do not identify implications for TBML.
- 253. The competent authorities tasked with tackling TBML are more often than not focused on work mandated by the legislation as it relates to them. They may have even achieved professional specialization and competence in such mandated work. However, the strategy

to prevent and combat TBML requires expertise created through the combination of all such authorities. It is recognized however that any necessary amendment in the given legal framework may not be easy and in some cases may impact on the respective professional efficiency that exists.

International Cooperation

254. International cooperation to combat TBML is difficult to achieve. The formal and informal means of international cooperation used include treaties and agreements. The Mutual Legal Assistance Treaty (MLAT) and the Customs Mutual Assistance Agreement (CMAA) are bilateral arrangements for exchange of information and are often deployed for combating TBML. However, exchanges made through formal channels often result in delayed responses, inadequate information and limited or no further feedback.
255. Informal channels include interaction with the representatives of foreign jurisdictions assigned for the purpose in the domestic jurisdiction. Informal channels which exist as part of bilateral diplomatic arrangements can also be used to tackle TBML.
256. The Project Team believes that there is an urgent need to strengthen the existing bilateral arrangements and to build multilateral mechanisms for international cooperation. The bilateral arrangements must ensure prompt exchange of information with regular follow-ups which should result in more efficient delivery. The multilateral mechanisms may entail equal commitment of all trading jurisdictions for coordination in matters relating to TBML. Technological innovations for effective communication across jurisdictions can provide permanency to multilateral arrangements. In this regard an initiative by the World Customs Organisation (WCO) to develop the concept of Globally Networked Customs (GNC) for exchange of information may turn-out to have significant strategic value.

TBML Focused Training

257. TBML focused training is an absolute necessity for the anti-TBML strategy to succeed. Customs, ML investigating LEA, FIU, Tax Authorities and Regulators have all identified a pressing need for more focused training so that their personnel can have an adequate knowledge base to detect, prevent and combat TBML. Many of the jurisdictions have reported limitations with regard to resources which they can spare to provide training capable of mitigating TBML activities. This study reiterates the findings of the FATF Best Practices Paper 2008 to incorporate a TBML focus in the existing AML training programmes.
258. The sharper focus on TBML in existing training programs can be brought about by incorporating specific topics which relate to TBML. The case studies, the red flags and typology papers on TBML may be disseminated during such programs. As trade essentially involves multiple jurisdictions, there is a need for Law Enforcement Officers to understand the legal and procedural aspects of other jurisdictions. Training should be aimed at making use of trade data analysis as well as cross referencing trade data with trade finance data and understanding any useful tools developed to identify trade anomalies which may lead to investigation and prosecution of TBML cases. Inter-linkages of tax frauds and customs violations with TBML also need to be explained.

259. The significance of domestic coordination and of international cooperation to tackle TBML must be conveyed during training programs. Further, as a large number of private players are involved in international trade they need to be apprised of concealed TBML threats in any outreach programs that are conducted. Thus, capacity building among all competent authorities and private industry is an important component of any successful strategy to prevent and combat TBML.

Further Research

260. The ongoing fight against TBML through the comprehensive strategy discussed in this Chapter should spur further research so as to meet emergent challenges. The possible areas of such research may be briefly delineated as follows:

- a) Services: Treatment with regard to TBML vulnerabilities in trade of services shall require specialized tools. Services more than goods, give wide scope for manipulation in pricing, quantification and delivery time-schedule. It may therefore be imperative to undertake further research to develop case-studies and identify red-flags.
- b) Terrorist Financing: Moving of funds through trade to fund illicit activity of terrorism is an important issue confronting the global security. Further research to look into aspects of such illicit fund movement through trade is called for.
- c) Financing the proliferation of WMD: Building on work undertaken by the FATF, there is a need to further consider vulnerabilities of trade finance to the financing of the proliferation of WMD.
- d) Risk Based Approaches: Adoption of risk based approaches in the strategy to combat TBML is essential not only to maximise resources but to target TBML without inhibiting genuine trade flows. Research should be undertaken to work-out models which could be practically adopted by various jurisdictions.
- e) Tax evasion: The work done by international bodies such as OECD, Global Financial Integrity, have brought into focus trade-mispricing and transfer pricing as well as their correlation with poverty. With continued enhanced focus on tax evasion, or use of tax havens and on evasion of customs duty, it is essential to do research to explore their inter-linkages with TBML.

261. A comprehensive strategy to meet the growing concern about TBML has been recommended in this Chapter. Challenges in formulating such a strategy have been identified. Ways forward for addressing some of these challenges have been suggested. International trade needs to be kept free of TBML so that the full benefit from effective and efficient global trade can be realised by the community of nations.

ANNEX A - TBML RED FLAGS FROM CURRENT & EXISTING STUDIES

262. The Red Flags which have been mentioned in the existing studies have been categorized as per the scheme adopted in Chapter II of this Paper. Annex A sets out red flags gleaned from existing studies, as well as those identified in the current study. In many cases there is a correlation between previous studies and the present study.
263. The Red Flags set out in this section of Annex A are derived from studies by the FATF, US (FINCEN & ICE), Australia (AIC) the Wolfsberg Group and studies by BRANNIGAN (2010) and Brown (2009).

Red Flags relating to Trade Finance:

- The transaction involves receipt of cash (or other payments like wire transfers, checks, bank drafts or postal money orders) from unrelated third party entities or an intermediary (either an individual or an entity) apparently unrelated to the seller or purchaser of goods. This may be done to obscure the true origin of the funds (e.g. Wires where no apparent business relationship appears to exist between the originator and the beneficiary) ;
- The transaction involves the use of repeatedly amended or frequently extended letters of credit without reasonable justification or for reasons like changes of the beneficiary or location of payment ;
- A customer's inability to produce appropriate documentation (e.g. invoice or any other document) to support a requested financial transaction or bank finds double invoicing or a Customer fails to provide adequate information about the originator, beneficiary, and purpose of the wire transfer;
- The method of payment appears inconsistent with the risk characteristics of the transaction; (For example, the use of an advance payment for a shipment from a new supplier in a high-risk country or Frequent transactions involving rounding or whole dollar amounts).
- Phantom shipping – no goods are shipped and all documentation is completely falsified to move funds in the guise of trade
- Negotiable instruments (such as traveller's checks, cashier's checks and money orders) in round denominations under \$3,000 used to fund domestic accounts or, alternatively, smuggled from a jurisdiction for placement into accounts at foreign financial institutions. The negotiable instruments may be sequentially numbered or purchased at multiple locations and may frequently lack payee information or contain visible broker markings or symbols. These negotiable instruments may also be used to pay for goods and services.

- International wire transfers received as payment for goods into bank accounts or processed through correspondent or intermediary accounts in a particular country, especially where the ordering party (importer of goods) of the wire does not live in the country from which the wire originated. (e.g. Wires originating from jurisdictions which have been highlighted in relation to black market peso exchange activities),
- Sudden onset and equally sudden cessation of payments – typically wire transfers – within a short duration. This could be an indication that the account is temporarily being used to launder illicit proceeds.
- A foreign based importing entity with accounts in exporting country receiving payments from locations outside the areas of their customer base.
- Unusual deposits occurring in combination with one or more of the following indicators:
 - Multiple deposits occurring in various locations when the account owner resides elsewhere, for example, deposits made in various cities when the account owner resides in a different city.
 - Multiple bank accounts held by a customer individually or along with closely related family members. These accounts may be held at one or more financial institutions. Such accounts may be used to facilitate the placement and layering of illicit funds.
 - Checking accounts receiving cash deposits in amounts under \$1,000 as frequently as several times per month. These deposits may be followed by ATM withdrawals in foreign countries. This method, sometimes referred to as micro-structuring, is used by “smurfs” to deposit cash which may then be used to purchase goods.
- Foreign visitors opening multiple bank accounts at one or more financial institutions. Individuals may travel to a foreign jurisdiction with instructions to establish multiple bank accounts as a straw party. Upon return to their home country the straw account owner signs all of the blank checks and relinquishes control of the checkbooks and ATM cards tied to the accounts to the beneficial owner who now has control of the accounts. The following are examples of activity common to these accounts:
 - Cash deposits received using over-the-counter deposit slips since the checkbooks containing the pre-printed deposit slips as well as ATM cards are located out of that country;
 - Deposits which are frequently made in multiple cities / jurisdictions;
 - Withdrawals made via foreign ATM transactions; or
 - Withdrawals via check transactions that exhibit a difference between the handwriting for the signature and the payee portions of the check.
- Unusual activity in established bank accounts for non-resident aliens, such as structured cash and monetary instrument deposits; checks written from the domestic account to foreign businesses with no apparent relationship to the account holder; and international wire transfers to entities that do not appear to have any relationship with the originator.

- Sequentially numbered checks drawn on domestic bank accounts negotiated through foreign money services businesses.
264. It is important to remember that no one activity by itself is a clear indication of trade-based ML. Due to some similarities with legitimate financial activities, financial institutions should evaluate indicators of potential trade-based ML in combination with other red flags and expected transaction activity for its customer before making determinations of suspiciousness. Additional investigation and analysis may be necessary to determine if the activity is suspicious, based on information available to the financial institution.

Red Flags relating to Jurisdictions:

- The commodity is shipped to (or from) a jurisdiction designated as “high risk” for ML activities;
- The commodity is transhipped through one or more jurisdictions for no apparent economic reason;
- Customers conducting business in high-risk jurisdictions. Although not specifically identified by the authority handling AML work or FATF ; FTZs may be added to the list of high-risk jurisdictions given that there is an argument that FTZs exacerbate the risk
- Customers shipping items through high-risk jurisdictions, including transit through non-cooperative countries
- Unusual shipping routes or trans-shipment points
- Funds transferred into a country’s domestic accounts that are subsequently transferred out of the account in the same or nearly the same amounts. Origination and destination locations are frequently high risk jurisdictions.

Red Flags relating to Goods:

- Significant discrepancies between the descriptions of the goods on the transport document (i.e., bill of lading), the invoice, or other documents (i.e., certificate of origin, packing list, etc.).
- Significant discrepancies appear between the description of the goods on the bill of lading (or invoice) and the actual goods shipped;
- Significant discrepancies appear between the value of the commodity reported on the invoice and the commodity’s fair market value;
- The size of the shipment appears inconsistent with the scale of the exporter or importer’s regular business activities;
- The type of commodity being shipped is designated as “high risk” for ML activities; [e.g. high-value, low-volume goods (e.g. consumer electronics, diamonds), which have high turnover rates and which present valuation difficulties].
- Shipment locations or description of goods that are inconsistent with the letter of credit

- Documentation showing a higher or lower value or cost of merchandise than that which was declared to Customs or paid by the importer (i.e. commodity over-valuation or under-valuation)
- Customers involved in potentially high-risk activities, including those subject to export/import restrictions such as equipment for military or police organisations of foreign governments, weapons, ammunition, chemical mixtures, classified defence articles, sensitive technical data, nuclear materials, precious gems, or certain natural resources such as metals, ore and crude oil
- Obvious misrepresentation of quantity or type of goods imported or exported
- A shipment that does not make economic sense (e.g. the use of a forty-foot container to transport a small amount of relatively low value merchandise)
- The type of commodity being traded appears inconsistent with the exporter or importer's usual business activities (e.g. a steel company that starts dealing in paper products, or an information technology company that suddenly starts dealing in bulk pharmaceuticals)
- Carousel transactions: the repeated importation and exportation of the same high-value commodity
- Packaging inconsistent with commodity or shipping method

Red Flags relating to Corporate Structures used:

- A transaction involves the use of front (or shell) companies.
- Companies or Money Exchange Bureaus located in third countries used as intermediaries for transfer of goods or money.
- A transaction structure that appears unnecessarily complex through introduction of corporate entities so that it obscures the true nature of the transaction.
- Companies operating out of foreign countries, especially when it is difficult or impossible to determine ownership or controlling persons of the company, or when the business purpose is not fully apparent.

RED FLAGS CONFIRMED IN THE APG TBML PAPER

265. The present paper has categorized the Red Flags received from various jurisdictions in response to the questionnaire into following five broad categories.

TRADE FINANCE

266. Based on the responses received from jurisdictions, red flags relating to financial & banking products may be categorized as follows:

- a) Use of **letters of credit** to move money between those countries, where such trade would not normally occur and / or is **not consistent with the customer's usual business activity**. A Letter of credit is generally resorted to so as to accord more legitimacy to the transaction in order to conceal the real facts.
- b) The **method of payment** requested by the client appears **inconsistent with the risk characteristics of the transaction**. For example receipt of an advance payment for a shipment from a new seller in a high-risk jurisdiction.
- c) The transaction involves the receipt of cash (or by other payment methods) **from third party entities** that have no apparent connection with the transaction or which involve front or shell companies or wire instructions / payment from parties which were not identified in the original letter of credit or other documentation. The transactions that involve payments for goods through cheques, bank drafts, or money orders not drawn on the account of the entity that purchased the items also need further verification.
- d) The transaction involves the use of repeatedly **amended or frequently extended letters of credit** without reasonable justification or that includes changes in regard to the beneficiary or location of payment without any apparent reason.
- e) **Unusual deposits** i.e. use of cash or negotiable instruments (such as traveller's cheques, cashier's cheques and money orders) in **round denominations** (to keep below reporting threshold limit) to fund bank accounts and to pay for goods and services. The negotiable instruments may be sequentially numbered or purchased at multiple locations and may frequently lack payee information. Further, cash payments for high-value orders are also indication of TBML activity.
- f) Inward remittances in **multiple accounts** and payments made from multiple accounts for trade transaction of same business entity are indicators for TBML. In this regard the study of foreign exchange remittances may help detect the offence.
- g) In the case of **merchanning trade**, the trade finance mechanism should be in place for both export leg as well as import leg of transaction. If the Trade Finance mechanism, for example, Letters of Credit, have been provided for only the import leg of the transaction and not for export leg, it also indicates the possibility of TBML.

JURISDICTIONS (ORIGIN OR DESTINATION OF GOODS)

- a) The commodity is shipped to or from a jurisdiction designated as '**high risk**' for ML activities or sensitive / non co-operative jurisdictions.
- b) The commodity is **transhipped** through one or more such high risk / sensitive jurisdictions for no apparent economic reason.
- c) Presence of **Free Trade Zones / Special Economic Zones** also affects the sensitiveness of a jurisdiction as far as TBML is concerned. FTZs are also emerging as being especially vulnerable to TBML. FATF (2010: 4) defines FTZs as 'designated areas within countries that offer a free trade environment with a minimum level of regulation'. In the said report, FATF noted that most zone authorities operate separate company formation services from those that exist in the rest of the jurisdiction and market the ease of setting up a legal entity in an FTZ to attract business. Many zone authorities request little or no ownership information of the companies interested in setting up in the zone. As a result, it is simpler for legal entities to set up the firms/companies in FTZs and hide the name(s) of the true beneficial owners. This lack of transparency has allowed companies located in FTZs to create layers of transactions that are difficult (if not impossible) for law enforcement agencies to follow (FATF 2010). It also reported that 'goods introduced in a FTZ' are generally not subject to the usual customs controls, with goods undergoing 'various economic operations, such as transhipment, assembly, manufacturing, processing, warehousing'. FinCEN has identified TBML red flags that are specific to FTZs. In its 2010 report, FinCEN (2010: 4) signalled that a number of red flags seen in conjunction with shipments of high dollar merchandise (such as electronics, auto parts and precious metals and gems) to duty free trade zones could be an indication of a trade-based ML activity.

These include:

- i. third-party payments for goods or services made by an intermediary (either an individual or an entity) apparently unrelated to the seller or purchaser of goods. This may be done to obscure the true origin of the funds;
 - ii. amended letters of credit without reasonable justification;
 - iii. a customer's inability to produce appropriate documentation (ie invoices) to support a requested transaction; and
 - iv. significant discrepancies between the descriptions of the goods on the transport document (ie bill of lading), the invoice, or other documents (ie certificate of origin, packing list etc) (FinCEN 2010).
- d) **Circuitous route of shipment** and/or **circuitous route of financial transaction** or **Order for the goods** is placed by firms or individuals from foreign countries other than the jurisdiction of the stated end-user.
- e) Transaction involves **shipment of goods inconsistent with normal geographic trade patterns** of the jurisdiction i.e. trade in goods other than goods which are normally exported/ imported by a jurisdiction or which does not make any economic sense e.g.

Semi-conductor manufacturing equipment being shipped to a jurisdiction that has no electronics industry.

NATURE OF GOODS

- a) Where significant discrepancies appear between the **description, quality and quantity** of the goods on the documents such as bills of lading, invoices etc and the actual goods shipped. The misrepresentation may also be in relation to or type / grade of goods. For example, a relatively inexpensive good is supplied but it is invoiced as being more expensive, of different quality or even as an entirely different item so the documentation does not accurately record what is actually supplied. This technique is particularly useful in TBML. Cheap cloth items / waste thereof are declared as premium quality garments to launder the criminal money.
- b) Significant discrepancies appear between the **value** of the commodity reported on the invoice and the commodity's fair market value. This is done either in conjunction with mis-declaration of the description / quality / grade of goods or without it. This is also often associated with mis-declaration of the jurisdiction of origin.
- c) **Consignment size or type of commodity** being shipped appears **inconsistent with the scale or capacity of the exporter or importer's having regard to their regular business activities** or the shipment does not make economic sense i.e. there is no reasonable explanation for the client's financial investment into the shipment.

COPRPORATE STRUCTURES

- a) The transaction involves the use of **front or shell companies**. Both shell and front companies can be used to facilitate TBML but in different ways. A shell company has no real operating activity and is used to hide ML activity and the identities of individuals involved so as to obscure the money trail. If activity is traced to the company it is literally an empty shell. As FATF (2010: 20) explained TBML and other ML schemes rely on the ability of the perpetrator of the crime to distance themselves from the illicit proceeds. Shell companies enable illicit actors to create a network of legal entities around the world. By contrast, a front company has real business whose legitimate operations are used as a cover for ML and other criminal activity. In many ways, front companies present a much more significant TBML threat than shell companies. The characteristics of offshore companies, for example, convenient formation, free operation, tax exemption and financial secrecy, all provide rather good veneer to disguise ML
- b) Numerous **sole proprietorship businesses/private limited companies** set up by seemingly unrelated people (proxies) are found to be controlled by the same group of people. For the setting up of such businesses false addresses are registered.
- c) Trade transaction reveals links between representatives of companies exchanging goods i.e. same owners or management. TBML requires collusion between traders at both ends of the import/export chain. **Related party transactions** (ie transactions between entities

that are part of the same corporate or business group) can possibly make TBML easier and more difficult to detect. Related party transactions, including transfer pricing, rely on mutual agreements between the parties, rather than free market forces. As the FATF (2006: 5) pointed out, over- or under-invoicing of goods and services requires collusion between the exporter and importer. Although there is a higher risk of related party transactions being used for fraud and for TBML, dealings between related parties are not necessarily illegal. d) Transfer pricing is a related party transaction that is commonly used by transnational corporation as part of their financial and tax planning strategy. Multinational organisations use transfer pricing to shift taxable income from jurisdictions with relatively high tax rates to jurisdictions with relatively low tax rates to minimise income tax. Similar strategies are also employed in relation to import duties and value added tax. FATF (2006: 3) made it clear though that in the case of transfer pricing, the reference to over- and under-invoicing relates to the legitimate allocation of income between related parties, rather than customs fraud.

PREDICATE OFFENCES OF TBML

267. 15% of the jurisdictions have reported that **tax evasion** is the predominant predicate offence in TBML cases whereas 10% of the jurisdictions have reported **customs offences** as the main predicate offence. Other responses indicate that predicate offenses are often related to commercial fraud, IPR, Narcotics, human trafficking, terrorist financing, embezzlement, corruption, organized crime (racketeering), dealing in banned goods, conducting illegal business, speculation etc. One Reporting jurisdiction indicated that ML is considered to be an autonomous offence and there is no need to prove the existence or nature of the predicate offence in order to prosecute hence as a consequence, there is no systemic link between ML cases and other crimes.

ANNEX B - SUMMARY OF RESPONSES TO THE APG TBML QUESTIONNAIRE

268. 19 jurisdictions responded to the questionnaire: Anguilla, Australia, Belgium, Belize, Bhutan, Cambodia, Canada, Fiji, Hong Kong, China, India, Japan, Macao, Malaysia, Myanmar, Nepal, OCO, Pakistan, Singapore, Vietnam and USA. Oceania Customs Organisation also responded to the questionnaire.

SUMMARY OF RESPONSES

SECTION A. COORDINATING AGENCIES

	Yes	No
1A. Reason for very few cases of TBML reported up to 2011:		
i. It is not an issue;	4	1
ii. It is a policy/law, issue that results in no detection; or	8	
iii. Other Issues (Training, awareness / other)that results in no detection;	9	
No Report / Not Applicable etc: (1)		
2A. Did the FATF 2006 & 2008 papers describe all types of TBML?	11	4
No Report / Not Applicable etc: (5)		
3A. Whether any Government department records information on goods imported and exported into your jurisdiction?	19	-
No Report / Not Applicable etc: (1)		
4A. Does this agency, if Customs, has dedicated financial investigators with experience in trade related offences and or ML investigations?	5	10
Does this agency, if other than Customs, has dedicated financial investigators with experience in trade related offences and or ML investigations?		5
No Report / Not Applicable etc: (2)		
6A. Does your jurisdiction use any database to identify the value of goods, ie under/overpricing?	12	5
No Report / Not Applicable etc: (3)		
7A. If your jurisdiction has identified cases of TBML?	9	8
No Report / Not Applicable etc: (3)		
8A. Has your jurisdiction undertaken any of the following:	2	14
a. A typologies study on TBML , or Abuse of the Trade Finance sector in the jurisdiction?		
b. A risk assessment of TBML or Abuse of Trade Finance sector in the jurisdiction?	2	14
c. A risk assessment on Transfer Pricing.	2	14
d. A risk assessment of the use of Alternative Remittance Sectors in trade finance.	2	14
No Report / Not Applicable etc: (4)		

SECTION B. CUSTOMS AGENCIES

	Yes	No
1B. Does Customs conduct investigations into TBML or Transfer pricing?	8	11
If so, does the Customs agency also conduct the ML aspect of this investigation?	4	4
No Report / Not Applicable etc: (1)		

2B. Statistics on the number of TBML investigations in the past 5 years.

Details	2007	2008	2009	2010	2011
Nos of TBML investigations initiated / identified / referred	-	-	5	8	219
Amount involved in such offences	-	-	-	-	Not available
Result of investigations	-	-	-	-	-
Value of assets attached / frozen	-	-	-	\$90 million#	Not available
Value of assets confiscated	-	-	-	-	-

Not Available/ Not Maintained separately / Nil: (17)

US reported TBML investigations completed in 2010 resulted in approx US\$90 million in seizures.

	Yes	No
3B. Is Customs part of any joint financial investigation/ML task force that conducts investigations into these offences?	9	9
Not Available/ Not Maintained separately: (2)		
4B. Has Customs received training on TBML?	8	10
Does Customs provide training to other agencies on TBML issues?	2	10
No Report / Not Applicable etc: (2)		
	Yes	No
5B. Whether any impediments encountered when conducting investigations? Eg impediments regarding the release of FIU data to the agency or agency unable to share trade information etc.	6	6
No Report / Not Applicable etc: (8)		
	Yes	No
6B. Whether information is collected on type of goods, value of goods, importer, exporter, owner, receiver, shipping company etc?	17	
No Report / Not Applicable etc: (3)		
7B. Do you conduct analysis of trade information that could be used to identify, investigate or prosecute TBML?	10	9
No Report / Not Applicable etc: (1)		
8B. Has your jurisdiction identified patterns of goods that are involved in TBML?	5	13
No Report / Not Applicable etc: (2)		
9B. Are goods in TBML usually trans-shipped?	1	5
And is there any pattern of jurisdiction of origin (ie where are the goods usually shipped from, or are there some jurisdictions more prevalent than others as a point of origin)?	2	2
No Report / Not Applicable etc: (14)		
10B. How are the investigations into TBML usually initiated? ie information from intelligence, law enforcement, FIU data, STRs, trade data etc.		
On the basis of inter-agency intelligence	8	
On the basis of intra-agency intelligence	8	

information from intelligence	information from law enforcement,	information from FIU data	information from STRs,	information from trade data	information from other sources
6	9	7	6	5	3

No Report / Not Applicable etc: (9)

	Yes	No
11B. During your investigations do you seek information from your international counterparts?	11	3
During your investigations do you seek information from your WCO?	10	3
No Report / Not Applicable etc: (6)		
12B. During your investigations do you seek information from Domestic LEAs?	10	3
No Report / Not Applicable etc: (7)		
13B. During your investigations do you seek information from international LEAs ?	8	4
During your investigations do you seek information from FIUs?	8	3
No Report / Not Applicable etc: (8)		
14B. Is there any impediments to the receipt or dissemination of this information?	8	5
Is there any legal requirements for the dissemination of information related to trade (ie MoU)?	4	4
No Report / Not Applicable etc: (7)		
15B. Does your agency maintain an intelligence database on import and export of goods?	15	4
Do you cross reference this information with other government databases, i.e. companies registry, tax records, criminal records etc.?	6	7
No Report / Not Applicable etc: (1)		
16B. Whether any indicators and red flags of TBML identified?	7	5
No Report / Not Applicable etc: (8)		
17B. Have you shared any TBML related intelligence with your foreign counterparts?	6	10
If so are you aware of the results of that dissemination, i.e. aid in investigation, result in prosecution etc.	3	
No Report / Not Applicable etc: (4)		
18B. Are there any challenges and obstacles for your agency to identify or investigate TBML?	8	3
No Report / Not Applicable etc: (9)		

SECTION C. LAW ENFORCEMENT AGENCY MANDATED TO INVESTIGATE ML (MAY INCLUDE CUSTOMS / INVESTIGATIVE FIUS)

1C. Statistics on the number of TBML investigations in the past 5 years

Details	2007	2008	2009	2010	2011
No. of TBML investigations initiated / identified / referred from other agencies	1	18	27	20	223
Amount involved	USD 2.17 Million	USD 6.16 Million	USD 420.59 Million	USD 46.88 Million	USD 81.52Million

Result of investigations	-	-	Prosecution pending	Prosecution pending	Prosecution pending
Value of assets attached / frozen (US \$)	USD 2.17 Million	USD 6.16 Million	USD 44.98 Million	USD 91.04 Million #	Under investigation
Value of assets confiscated	-	-	-	-	-
No Report / Not Applicable etc/ Nil : (15)					
#: In addition to above as per report of USA: 208 investigations. TBML investigations completed during 2010 resulted in approximately \$90 million dollars in seizures.					

	Yes	No
2C. Does the law enforcement agency conduct investigations into TBML or Transfer pricing?	11	4
If so does the law enforcement agency also conduct the ML aspect of this investigation?	11	3
No Report / Not Applicable etc: (5)		
3C. Is the law enforcement agency part of a joint financial investigation/ML task force that conducts investigations into these offences?	9	6
No Report / Not Applicable etc: (5)		
4C. Has the law enforcement agency received training on TBML?	7	10
Does it provide training to other agencies on TBML issues?	3	9
No Report / Not Applicable etc: (3)		
5C. Are there any impediments encountered when conducting investigations?	6	9
No Report / Not Applicable etc: (5)		
6C. How are TBML investigations initiated? i.e. referrals from other agencies etc.?		
1. From Internal intelligence: (7)		
2. Referrals from other agencies: (11)		
No Report / Not Applicable etc: (7)		
7C. Of the TBML matters investigated what is the average size, in dollar terms, of the offence?	USD 557.3 Million in 19 cases.	
No Report / Not Applicable etc: (15)		
8C. What are the predicate offences that have in the past been associated with TBML?		
1. Narcotics		
2. Domestic Crime / Organised Crime		
3. Corruption		
4. Customs Violations		
5. Tax Evasion		
6. Manufacturing, stockpiling, transporting and/or trading in banned goods		
7. Conducting business illegally		
8. Speculation		
9. Commercial fraud		
10. IPR		
11. Human Trafficking & Terrorist Financing		
12. Embezzlement		
13. Fraud		
No Report / Not Applicable etc: (12)		
9C. What types of goods are involved in TBML matters?		
1. Metal scrap.		

2. Textile materials. 3. Zero duty goods like Diamonds. (2) 4. Precious metals. 5. Luxury watches 6. Good where the taxes are high or which are heavily controlled 7. Electronic goods 8. Illicit tobacco products 9. Counterfeit Products 10. Bulk Commodities.				
No Report / Not Applicable etc: (14)				
10C. What types of corporate structures are used by criminal syndicates in TBML investigations?				
1. Companies: (6) 2. Offshore Companies: (5) 3. Others: joint-venture companies registered in developing countries (1) 4. Criminals don't use Corporate Structure. (1)				
	Yes	No		
Where such offshore companies are registered?	3			
Is there any pattern to jurisdictions that they are registered?				
No Report / Not Applicable etc: (16)				
	Yes			
	No			
11C & 12C. Whether you receive information from the Customs agency?	12	1		
Are there any restrictions on the use of this information?	7	5		
No Report / Not Applicable etc: (7)				
14C. Does your agency have specialist financial investigators who conduct the TBML investigations?	9	7		
No Report / Not Applicable etc: (4)				

	Value in USD
15C. What was the value of any assets forfeited as a result of the investigation?	USD 72.66 Million
No Report / Not Applicable etc: (17)	
16C. What red flags or indicators of the TBML activity have you identified?	
No Report / Not Applicable etc: (12)	
	Yes
17C. Have investigations of Alternative Remitters identified instances of TBML?	3
Have investigations of Alternative Remitters identified instances of abuse of trade finance?	2
No Report / Not Applicable etc: (10)	

SECTION D. FIU

1D. Statistics on the number of TBML STRs in the past 5 years

Details	2007	2008	2009	2010	2011
Nos of TBML STRs received	15	49	186	690	1054
Nos of TBML STRs disseminated	7	28	130	474	699
Value of STRs received (USD)	\$756	\$15462	\$164614	\$486256	\$7315
No Report / Not Applicable etc: (15)					
2D. Is the FIU part of a joint financial investigation/ML task force that conducts					Yes
					No
					3
					15

investigations into these offences?		
No Report / Not Applicable etc: (2)		
3D. Has the FIU received training on TBML?	7	11
Does it provide training to other agencies on TBML issues?	7	11
No Report / Not Applicable etc: (2)		
4D. Are there any impediments encountered when conducting intelligence gathering? For example, impediments regarding the release of FIU information, unable to receive law enforcement information, lack of access to databases etc.	5	11
No Report / Not Applicable etc: (4)		
5D. Can Customs agencies receive financial information from the FIU?	18	-
No Report / Not Applicable etc: (2)		
6D. Have requests been made for sharing financial intelligence (FIU to FIU, FIU to LEA etc)?	14	4
No Report / Not Applicable etc: (2)		

SECTION E. TAX AUTHORITIES

	Yes	No
1E. Do you have any estimates of the size of (detected and undetected) TBML and transfer pricing in your jurisdiction?	2	9
If yes, what is the size? USD 19 Million (1 Jurisdiction)		
No Report / Not Applicable etc: (9)		
2E. Does the Tax Authority conduct investigations/audits into TBML or Transfer Pricing?	3	10
No Report / Not Applicable etc: (7)		

3E. Statistics on the number of TBML/transfer pricing detections in the past 5 years

Details	2007	2008	2009	2010	2011
No of TBML/transfer pricing investigations initiated / identified		1	1	3	63
Amount involved in such offences (USD)		USD 234.6	USD 111.8	USD 49.3	USD 240.9
Result of investigations		<i>Not prosecuted</i>	Not prosecuted	Not prosecuted	Not prosecuted
Assets attached / frozen/confiscated					

Nil /No Report / Statistics not maintained for TBML cases /Not Applicable etc: (18)		
	Yes	No
4E. Is the Tax Authority part of a joint financial investigations/ML/Task Force that combats TBML?	5	6
If so, is there a lead agency?	2	3
No Report / Not Applicable etc: (9)		
5E. Has the Tax Authority received training on TBML?	4	9
Does it provide training to other agencies on TBML issues?	1	10
No Report / Not Applicable etc: (6)		
7E. Does the Tax Authority receive FIU data for the purpose of investigation of administrative issues?	6	5
No Report / Not Applicable etc: (9)		

SECTION F. AML REGULATOR

	Yes	No
1F. Has the regulator or supervisor provided guidance to reporting entities regarding TBML vulnerabilities and red flags?	11	5
No Report / Not Applicable etc: (4)		
2F. Does the regulator or supervisor provide training to reporting entities and their own staff on TBML?	8	8
Does the regulator have experts in the area of Trade Finance?	5	7
No Report / Not Applicable etc: (4)		
3F. Does AML supervision include trade finance aspects of compliance?	10	6
No Report / Not Applicable etc: (4)		
4F. Does your jurisdiction have foreign currency controls?	11	4
No Report / Not Applicable etc: (5)		
5F. Do foreign currency controls have a role in identifying abuse of trade finance or TBML?	5	4
No Report / Not Applicable etc: (11)		
6F. Have investigations of Alternative Remitters identified instances of TBML or abuse of trade finance?	3	9
No Report / Not Applicable etc: (8)		

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Combating Trade Based Money Laundering: Rethinking the Approach

August 2017



BAFT

Appendix F

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Combating Trade Based Money Laundering: Rethinking the Approach

INTRODUCTION

In 2006, when the Financial Action Task Force (FATF) published its report, *Trade Based Money Laundering*, it was apparent that additional measures were needed to help combat money laundering and the financing of terrorism in the international trade sector. FATF concluded that “as the standards applied to other money laundering techniques become increasingly effective, the use of trade-based money laundering can be expected to become increasingly attractive” and that “the scope for abuse of the international trade system has received relatively little attention.”¹

Since that time, trade based money laundering (TBML) has become an increasing concern. A study by Global Financial Integrity estimates illicit inflows and outflows to and from developing and emerging economies was between 14–24% of their total trade from 2005–2014.² That is more than a trillion dollar problem—not counting the potential damage done by the use of the illicit funds. The international trade sector and regulatory agencies have worked to address the issue. FATF and other authorities have published various forms of guidance to assist banks and help other parties identify characteristics that may indicate money laundering.

BAFT (Bankers Association for Finance and Trade) established a working group to help provide clarification and guidance on the complex financial crime and know your customer (KYC) compliance requirements associated with trade finance. In March 2015, BAFT issued *Guidance for Identifying Potentially Suspicious Activity in Letters of Credit and Documentary Collections*, a comprehensive compilation of trade red flags identified by the U.S. Federal Financial Institutions Examination Council (FFIEC), FATF, the Wolfsberg Group (Wolfsberg), and the UK Financial Conduct Authority (FCA). BAFT’s guidance identifies 16 distinct trade red flags.³

While helpful, clarification of regulations and additional compliance staff is not enough to solve the problem. The core problem with TBML is that it is a methodology criminals use to hide illicit funds by integrating them into normal commercial flows. So there is an inherent trade-off between interrupting normal commerce and intercepting illicit transactions. Some have likened this not to looking for the needle in a haystack, but rather, looking for the bad needle in a stack of needles.

1. FATF, Trade Based Money Laundering, June 2006.

2. *Illicit Financial Flows to and from Developing Countries: 2005–2014*, Global Financial Integrity, April 2017.

3. BAFT (2015), <https://baft.org/policy/document-library>

In this paper, BAFT proposes alternative collaborative approaches to the public and private sectors for solving the problem of trade based money laundering. The objective is to increase the effectiveness of efforts to combat financial crime, while ensuring commerce through trade continues to flow in an efficient manner. We will seek to clarify misconceptions about bank-intermediated trade and the ability of banks to interdict illicit activity. We also will explore ways in which the broader group of stakeholders in international trade can better align to help reduce TBML and the financing of terrorist activities using trade.

BACKGROUND

The primary role of banks in international trade is to provide financing, risk mitigation and settlement of payment for cross-border transactions. However, they have been increasingly called upon to help identify and intercept financial crime. Banks recognize their citizenship role in protecting the integrity of the financial system, however, there are misconceptions about bank-intermediated trade and the ability of banks to interdict illicit activity.

To better understand TBML in a bank context, it is essential to first differentiate trade that is bank-intermediated from that which is not. Buyers and sellers agree to contract terms independent of any financing that may be required. In some instances, financing is not required. In other cases, financing is provided between the two parties (e.g., 30/60 day terms of sale), where the buyer pays the seller within a designated period of time from the invoice date. The only role for the bank is processing the payment to settle the transaction. The bank has no knowledge or visibility to the underlying trade transaction as it was not bank-intermediated, and therefore, has limited ability to identify illicit trade behavior.

In instances where trade is bank-intermediated, the bank may provide financing and/or risk mitigation. Financing occurs in a variety of forms including transaction types such as documentary (e.g., letters of credit, collections, guarantees) and non-documentary (e.g., trade loans, receivables/payables financing). Transactions that are non-documentary and those that are not bank-intermediated are broadly referred to as open account trade. In 2017, Wolfsberg estimated that approximately 80% of global trade was transacted using open account settlement.⁴

For documentary trade, banks observe commonly accepted rules, such as those outlined in the International Chamber of Commerce (ICC) Uniform Customs and Practices (UCP), and other similar rules for various transaction types. For documentary credits, UCP 600 Article 5 notes: “Banks deal with documents and not with goods, services or performance to which the documents may relate.” For bank-intermediated open account trade, there are rules for some, but not all transaction types since financing can be very deal-specific. Deal structure and policies of the lending institution outline documentation required.

Banks receive underlying documentation for the approximate 20% that is documentary trade, a portion of non-documentary bank-intermediated trade, and 0% of non-bank intermediated trade. They are limited in both the number of opportunities to interdict illicit flows as well as the practicality of identifying “the bad needle.”

4. *The Wolfsberg Group, ICC and BAFT Trade Finance Principles 2017.*

Documentary and Non-Documentary Trade Transactions

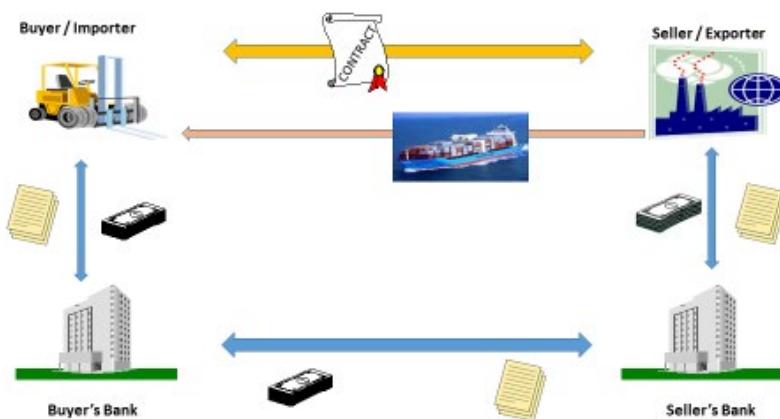
From the standpoint of an organization looking to launder illicit funds, the payment is the most important piece of the puzzle. The trade transaction, in most instances, is being used as additional cover to help avoid detection. The same way narcotics or human smuggling operations may physically co-mingle drugs or people with “normal” shipments, TBML relies on payments in settlement of trade transactions to mask the movement of illicit funds. The type of trade transaction used determines the opportunities a financial institution has to identify the suspicious activity.

In documentary transactions, the bank handles or processes documentation such as bills of lading, invoices, packing lists, etc. In non-documentary transactions, the bank may have access to only a portion of documentation based on the structure of the transaction and policy of the institution. For example, pre-shipment financing occurs before shipping documents and invoices are produced. For non-bank intermediated transactions, the bank only handles the transfer of funds without seeing any underlying documents that identify the payment as being trade related.

1. Example of a documentary trade transaction: Processing the drawing of a letter of credit:

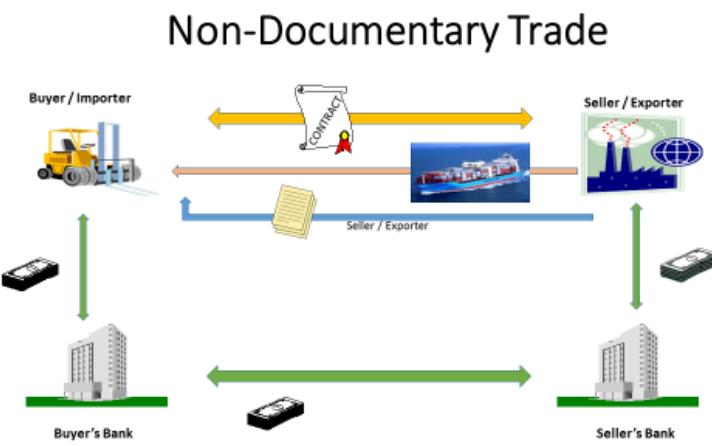
In such a transaction, to obtain payment, the seller/beneficiary presents the documents (as outlined in the letter of credit) to his/her bank. The documents may include the title/transport document, invoice, packing list, certificate of origin, inspection certificate, etc. In this case, the bank advising and/or negotiating the letter of credit has sufficient access to the transaction's underlying information to review it for red flags before executing the payment. There is some potential to identify indicators of money laundering, especially given that documents generally undergo several stages of (often manual) review by experienced processing staff within a bank's trade services department.

Documentary Trade



2. Example of a non-documentary trade transaction: Processing a wire transfer to settle an open account transaction:

In such a transaction, banks usually have only the name, address and account number of the payment originator (buyer) and name and account number of the payment beneficiary (seller). The payment is typically processed without human intervention via systems in the bank's wire transfer department. It is possible that very general payment information such as "Invoice number 123," will be included, but that will not always be the case. In fact, there is rarely sufficient information about the purpose or nature of the underlying transaction to identify a payment as settlement of a trade transaction, let alone apply the red flags outlined in BAFT's comprehensive guide.



In the back of this document, Table I highlights key characteristics of different types of funds transfers and trade-related transactions that banks may handle, and how the different types of transactions determine a bank's ability to identify potential money laundering, including some of the applicable controls. Note that with funds transfers, which may or may not be in settlement of an underlying trade transaction, the bank could detect potential TBML only for that small subset of activity where supporting documentation had been requested and subsequently obtained outside of the bank's regular procedures for general funds transfer activities. Table II maps the BAFT red flags to the relevant types of payment, documentary trade and open account trade payment activity.

CHALLENGES

Typologies: Types of Money Laundering Schemes

Trade-based money laundering is defined by FATF as “the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimize their illicit origin.”⁵ Criminals and/or terrorist organizations may try to disguise the nature of the activities they are funding or goods⁶ they are shipping, to appear as normal trade transactions. Such schemes leverage the natural flow of goods in exchange for payment, to move value from one location to another without triggering suspicious activity alerts.

This paper will not address all of the various typologies used, as there have been different manifestations of TBML in different regions based on the local business practices. In general, TBML schemes may involve:

- Over or under invoicing: Misrepresenting the price of the goods.
- Multiple invoicing: Invoicing one shipment several times.
- Short or over shipping: Shipping more or less goods than invoiced.
- Obfuscation: Shipping something other than what is invoiced.
- Phantom shipping: Shipping nothing at all with false invoices.

Example 1: Over-Invoicing Price of Goods

Company A, a colluding importer in Country X, agrees to purchase 10,000 cell phones for \$200 each from Company B, a colluding exporter in Country Y. The true cost of the cell phones is \$100 each and the retail value of each phone is \$400. Company B exports the phones and invoices Company A for \$2 million, when the true value is only \$1 million. Company B has just received a transfer of excess value of \$1 million that MAY represent illicit funds obtained by Company A and have now been moved from Country X to Country Y. The trade documents may all be consistent with the contract and actual goods shipped, hence, without knowing the true value of the goods shipped, it is virtually impossible to detect this as TBML in the normal course of the trade transaction.

Example 2: Under-Invoicing Price of Goods

Same scenario as in Example 1, however, in this case, the contracted price of the phones is \$30 each. Hence, Company A will pay Company B only \$300,000 (instead of \$1 million). However, when Company A sells the phones at retail, they will generate the same \$4 million in gross sales, but will retain \$3.7 million in profit instead of \$3 million, resulting in a transfer of \$700,000 in excess value from Company B to Company A.

In each case above, the technical specifications, location and brand of the phones may greatly vary the true cost. Bank personnel are typically not qualified to assess the true value/cost of goods. What if the goods

5. FATF, *Trade Based Money Laundering*, June 2006.

6. Dual-use goods are relevant in this context. These are goods that may be perfectly legitimate objects of international trade (e.g., fertilizer, cell phones, etc.) that have also been defined in various regulations as being potential components of weapons of mass destruction (WMDs). Financial institutions are required to flag trade transactions with indicators of a criminal scheme involving WMDs as well as those with indicators of money-laundering, but the same limitations that apply to screening for TBML apply to WMDs.

shipped are actually narcotics instead, but the invoices and shipping documents state cell phones? How would the bank know, since they only deal in documents, not the actual goods? What if the invoices are submitted and paid multiple times? What if the invoices are submitted and paid, but no shipments actually take place? All of these represent TBML schemes, and a bank's ability to identify red flags also depends on whether it is bank-intermediated trade and if documentary or non-documentary settlement methods are used.

Over 80% of the time, Company A and B settle transactions such as this on open account, limiting banks' ability to even identify the payment as settlement of a trade transaction. Only in cases where banks are financing the open account trade transaction would they know of its existence. Open account settlements are typically handled by wire transfer or checks. Some open account activity may be handled through "netting," where the buyer and seller have multiple transactions between them and may owe each other money. Rather than issuing multiple individual payments, the parties may agree to settle via a single net payment. Netting of payments can further obscure the nature of the transactions.

If the transaction was settled using documentary trade (e.g., letter of credit), then the processing staff might notice anomalies if the documentation was inconsistent. If the bank were providing post-shipment financing, they might also have access to some documentation. However, it is also feasible that the true unit cost of a cell phone is \$100, or \$200 or \$30, thus making the red-flag for over/under invoicing very difficult to detect. Similarly, banks deal only in documents, so they are not positioned to determine if the shipment actually contained 10,000 phones, some other quantity, or something other than cell phones.

There is limited data to indicate what percentage of actual TBML involves bank-intermediated, documentary and non-documentary trade. Nevertheless, for reasons outlined above, there appears to be a very low instance of documentary TBML relative to open account. Yet, an inordinate amount of emphasis is placed on the controls within the trade services department to mitigate TBML in documentary trade.

More than US\$3.07 quadrillion in payments are made annually.⁷ By comparison, World Trade Organization (WTO) estimates roughly \$16 trillion of trade transactions occur each year. Accordingly, approximately 0.52% of the value of all payments represent trade settlement. Given that at least 80% of trade is open account, only about 0.1% of the value of payments made reflect settlement of documentary trade. **All of the AML monitoring and controls put in place in a bank's trade services department are there to identify and intercept roughly 0.1% (or less) of illicit funds flow.** This is not a very efficient use of resources.

To truly make a difference in mitigating TBML, we must look beyond documentary trade, and beyond banks.

7. CHIPS and the World Bank, 2015.

Monitoring Non-Documentary Trade Transactions

Banks are expected to understand their customers and their customers' business. A due-diligence assessment of a corporate client at the time of onboarding may include expectations of volumes, values and trade flows as well as an understanding of the types of goods and services involved. This customer profile allows banks to periodically validate that the transaction flows are consistent with the business profile of the customer. If a dairy company starts transacting in precious metals, a red flag may be raised either during the processing of a transaction, or in post-transaction reviews if they used documentary trade settlement.

If a bank customer that conducts international trade only uses the bank to settle its transactions (i.e., does not use the bank's trade services), the bank does not have opportunity to identify changes in underlying trade flows, only changes in payment flows. A company with annual turnover of \$10 million that makes and receives \$15 million in payments in a given month, may raise a red flag in periodic client reviews. Large companies may transact with thousands of counterparts around the world, so it becomes even more difficult to identify and monitor changes in a company's counterparts. When a bank sends a payment on behalf of its corporate customer to a beneficiary at a foreign bank, the U.S. bank may have very limited information on the receiving bank's customer.⁸

Most wire transfers flow straight through bank systems electronically, without manual intervention. For some intermediary banks, less than 5% of transactions are seen by bank personnel. However, even when wire transfers do not flow straight through the system and must be reformatted, the transfer instructions may not include explicit details on the purpose of the transfer. This information might also be transmitted from the originator to the beneficiary outside the wire transfer (e.g., by email), and outside of bank systems.

Even when wire transfers do contain details on the purpose of the payment, the financial institution does not have any documents to validate. The details themselves offer little for analysis, such as:

1. Payment for settlement
2. Payment for invoice 1234
3. Payment for goods
4. Payment for 1000 widgets as per invoice no. 1234

Generally, the only time a bank intervenes to obtain more details on a payment is if:

1. The payment instructions are unclear, requiring more information.
2. A sanctions filter automatically stops the transaction for further review by Operations and/or Compliance staff. The bank may ask for additional detailed information on the underlying transaction and purpose of the payment to determine if there is actually a true "hit" i.e., a sanctions violation.

8. According to FATF's October, 2016 *Guidance on Correspondent Banking*, "To clarify, the FATF Recommendations do not require financial institutions to conduct customer due diligence on the customers of their customer (i.e., each individual customer)."

Banks periodically conduct post-transaction reviews, which may offer opportunities to identify TBML activity. Such post-transaction reviews are typically run on a monthly basis, and may leverage predefined algorithms and parameters to identify patterns of activity that may be deemed “unusual.” Unusual activity is not necessarily suspicious or criminal, and institutions follow a review and escalation process to assess whether a Suspicious Activity Report (SAR) should be filed or other course of action taken. Post-transaction reviews can help identify TBML, but are limited by the scope, type and quality of data that can be analyzed and validated.

A bank may potentially spot red flags and issue a trade-related SAR only when documentation reveals the nature of the trade. Between March 1, 2012, and December 31, 2016, U.S. TBML/BMPE (Black Market Peso Exchange) SAR filings represented less than 1% of overall U.S. SAR filings.⁹ FATF notes that most jurisdictions do not identify TBML as a separately identifiable activity, that is, something apart from money laundering in general.¹⁰ Such identification would generate better statistics and information on TBML.

Better data and reporting on TBML SARs would help localize the actual risk and points of vulnerability, but from the above, it should be fairly obvious that the highest likelihood of successfully achieving TBML is through open account non-bank intermediated trade. Hence, piling more checks and controls to interdict documentary trade transactions is not likely to produce a material impact on TBML. Our attention, therefore, should look beyond bank trade services operations and examine other approaches to increase effectiveness of stopping this illicit activity.

SOLUTIONS

A starting point for all stakeholders is continuous education, awareness, procedures and compliance discipline. We take these as a common baseline, though we recognize not all institutions have the same level of expertise or systematic capabilities. As technology continues to evolve rapidly, more tools to combat TBML are available. Unfortunately, criminal organizations are always working to stay one step ahead, often utilizing some of the same technology. Nevertheless, as we characterized the problem as one of finding the bad needle in a stack of needles, organizing the solution requires collaboration, analytics and a targeted approach.

Information Sharing

Partnering and information sharing has been instrumental in combatting TBML. It is understood that data sharing and privacy concerns must be weighed, and this has been flagged as one of the obstacles to more effective efforts to combat financial crime. That issue may be explored in more detail in other papers, but there is a practical example of how that can help the industry better combat TBML.

Started as a 12-month pilot project in 2015, the UK’s Joint Money Laundering Intelligence Taskforce (JMLIT) established itself as a successful AML public-private partnership led by law enforcement and included several

9. FinCEN Suspicious Activity Report (Form 111) Exhibit 4, Number of Filings by Type of Suspicious Activity by Depository Institutions, March 1, 2012–Dec. 31, 2016

10. FATF, *Best Practices on Trade-Based Money Laundering*, June 2008.

government agencies, the British Bankers Association, UK and international banks. Its aim was to improve intelligence sharing to aid the fight against money laundering. The inter-agency operation has been so successful, it is now a fully established dimension of UK anti-money laundering strategy. As JMLIT continues to demonstrate successful prevention and prosecution of financial crime, the UK National Crime Agency (NCA) continues to “[work] with colleagues from overseas law enforcement agencies to help inform the development of similar partnerships.¹¹”

Such a public-private partnership has tremendous value in identifying trends as information is able to be shared in a controlled setting that may not be detected just within one institution. Further, by highlighting evolving trends, it enables all participants to be more targeted, and thus more effective. It also demonstrates an intangible, yet very valuable point that law enforcement, government agencies and financial institutions are all on the same team when it comes to fighting financial crime. Other governments have looked at the JMLIT and are considering the value of such efforts in different countries. We believe such public-private partnerships must be encouraged and supported.

When FATF published¹² its list of trade red flags, it included a broad range of trade-related activity and the involvement of parties other than banks. As outlined by FATF, shipping companies, shipping agents, freight forwarders, customs brokers and customs officials also may be involved in handling trade transactions and also have a role to play in identifying TBML activities.

Keep in mind that only 20% of all trade is documentary, only 0.1% of the value of all payments are settlement of documentary trade. The TBML net must be cast much wider than just banks. For instance, customs clearance is a vital check point where all goods entering a country must have proper classification, valuation and inspection in order for a buyer to claim them. This process serves a variety of economic and national security interests, and can also be a vital point of intersect to combat TBML. A JMLIT-type of partnership should include the customs and freight community, as well as the financial community.

Data Analytics

Banks and government entities have invested heavily in technology to improve their ability to identify anomalies in payments, non-documentary and documentary trade. It is worth noting here that certain types of data analytics have been highly successful when used by government to identify and combat trade-based financial crime. As described in a 2016 Congressional Research Service Report¹³:

“Within the U.S. Department of Homeland Security (DHS), Immigration and Customs Enforcement’s Homeland Security Investigations (ICE/HSI) established the first Trade Transparency Unit [TTU] in Washington, D.C., in 2004. Using a specialized computer

11. <http://www.nationalcrimeagency.gov.uk/about-us/what-we-do/economic-crime/joint-money-laundering-intelligence-taskforce-jmlit>

12. FATF, *International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation*, 2012, updated October 2016.

13. CRS, Trade-Based Money Laundering: Overview and Policy Issues, 2016, p. 13-14.

system called the “Data Analysis and Research for Trade Transparency System” [DARTT], TTUs examine trade anomalies and financial irregularities in domestic and foreign trade data to identify instances of TBML, customs fraud, contraband smuggling, and tax evasion According to one estimate, more than \$1 billion has been seized since the creation of the U.S.-and foreign-based TTU effort.”

What the TTU was able to achieve was an aggregation of data across all shipments to analyze price variations outside of a range, thus allowing for a more targeted review of potential over/under invoicing. This is a much more effective approach than relying on individual bank personnel at different institutions, and was instrumental in helping law enforcement identify and apprehend criminal organizations utilizing different TBML methods. It is important to note that using customs data was central to the TTU. This is a much more comprehensive and reliable source of price valuation analytics than bank trade services personnel.

An integrated combination of data analytics from customs, shipping and freight companies, and financial institutions, could offer a vastly improved ability for law enforcement to identify patterns of illicit behavior, illicit flows, and have a material impact on interdicting TBML.

Emerging Technology

With the introduction of distributed ledger technology (DLT), we have seen banks and the FinTech community feverishly at work trying to apply the benefits of the technology to solve business problems. One such problem involved the duplicative (fraudulent) discounting of receivables. In the Qingdao case in 2014, companies were alleged to have used warehouse receipts for the same metals stockpiles several times to commit hundreds of millions of dollars of fraud. A proof of concept run by banks in Singapore demonstrated that DLT was able to mitigate the multiple invoicing fraud problem. While the limited case demonstrated the capability of the technology, the industry still faces the challenge of widespread availability, adoption and deployment else, a company that tries to commit fraud at one institution will try again at others until they succeed.

Artificial intelligence (AI) and cognitive computing have emerged as promising technologies that learn and adapt as more information is provided. This is valuable to all stakeholders to be able to identify complex patterns, both in post-transaction audits, and in predictive models, which is even more powerful. We see examples of this currently helping to mitigate credit card fraud—often in real time. Market leaders are actively assessing applications for advanced technology to improve their ability to detect and mitigate illicit behavior, but we are still early in the cycle.

Emerging technology can help in the fight against financial crime, but as it evolves, taking a coordinated, risk-based approach is still paramount. Data pooling across stakeholder communities (public and private) may be more effective than organizations deploying duplicative solutions. Organizations are already constrained by funds available for investment in technology, so shared investments in such data pooling solutions can also reduce the cost, risk and potentially accelerate the timeline for deploying technology solutions to mitigate financial crime. Smaller organizations are more likely to be most constrained in their ability to make significant technology investments. Consideration must be given for how capabilities in that part of the global trade and financial ecosystem can be bolstered.

CONCLUSIONS & RECOMMENDATIONS

The problem of TBML is significant and difficult to detect. Like most forms of money laundering, sophistication of structuring and the ability to co-mingle illicit transactions with legitimate transactions makes it very difficult to detect. Transactions are stitched together in a way where individually, they may appear on their face to be legitimate, and can only be detected when looked at across a broad spectrum to identify the illicit pattern. That includes looking beyond a single financial institution's transactions. That includes looking beyond financial institutions collectively.

There are many misconceptions about TBML, which has inhibited the industry's effectiveness in combatting it.

1. Most TBML occurs in non-documentary trade, and trade settlements represent only 0.1% of the value of all payments. Layering additional controls on the manual operations in a bank's trade operation will not solve TBML. The solution must reach beyond banks. Law enforcement, government agencies and regulators should take an ecosystem approach to this problem, bringing together financial institutions, customs agencies, shipping companies and other stakeholders that have access to different information. In this way, an end-to-end view can be constructed, and mitigating controls put in the right place.
2. Information sharing across public-private sectors is vital to identifying trends, structures and techniques used by criminals, thus improving the ability to combat TBML. By gathering and sharing relevant information through a codified process, stakeholders can better identify TBML.¹⁴ The UK's JMLIT is a good example of partnerships between government, regulators, law enforcement, financial intelligence units (FIUs) and business. These types of cooperative partnerships that can examine current case studies and trends, should be considered in jurisdictions where TBML is a concern, as this can help mitigate the contagion of TBML schemes used across multiple institutions.
3. Data pooling, particularly including data from customs and the freight community, is vital to the analytics to detect TBML methods such as over/under invoicing. Banks are just one node on the network used by criminals, and do not have all the necessary data to identify and interdict TBML. Pooling data across stakeholders will allow for more robust analytics and higher success. The TTU concept should be considered as a means to pool data in a protected manner to identify anomalies, helping to better target law enforcement investigations. While this is currently a government run system, deploying public-private solutions of this nature will be much more effective. It is important to recognize that individual institutions and industries have limitations, but an ecosystem view allows for a more effective means to detect and proactively prevent financial crime.
4. More comprehensive and globally consistent SAR classification and tracking will aid in the analysis of the TBML problem. More consistent standards across jurisdictions, better data on measuring and qualifying the problem and success of solutions is needed. Enhancing existing classification systems to improve identification of anomalies could assist various stakeholders with the current challenges in detecting and investigating suspicious activity.

14. Considering the limitations related to sharing information and data related to privacy and confidentiality rules, stakeholders must consider how to share data effectively.

5. Better education is needed across all stakeholders. There are many gaps in understanding what information is available to parties across the disparate and unconnected value chain, and at what points in a transaction cycle. Many redundancies exist along with many gaps, leading to higher costs and inefficiencies. The public and private sectors, including multiple industry players/stakeholders, must work together to fill the gaps in understanding, and leverage each other's expertise and position in the transaction cycle. Again, this could be achieved through a cross-industry public-private partnership as suggested above.
6. New technology should continue to be evaluated for its usefulness, and where appropriate, leveraged for purposes of combatting TBML. Pooled/shared investment should be considered to ensure that the broader ecosystem is utilizing the most advanced methods to identify and interdict financial crime, while minimizing the duplicative cost to each institution. Smaller and less sophisticated institutions must also have access to technological solutions, else, they will become the main targets for entry into the financial system by criminal organizations.

The success of financial crime compliance initiatives should consider the effectiveness of outcomes, not just adherence to a process. Financial institutions continue to go to great lengths and dedicate significant resources to identify TBML, and have no appetite to facilitate illegal activity. They must remain aware, disciplined, and vigilant when it comes to methods and tools to identify, report and interdict financial crime. However, financial institutions are highly limited in their ability to combat financial crime. These roadblocks present challenges in detecting TBML, terrorist financing and the proliferation of WMDs. To impact the effectiveness of anti-TBML efforts, we must include, but look beyond banks.

Initiatives such as the JMLIT and the TTU have demonstrated that both gathering wider information across the industry and applying data analytics can result in much more successful identification and prosecution of criminal activity. We are aware of efforts in other jurisdictions to consider more integrated public-private sector trade platforms. Development of better forums for sharing such information (both formally and informally) might result in creation of better red flags and typologies for all parties to be able to enhance their ability to identify potentially suspicious activity.

BAFT looks forward to continuing the dialogue with governments, industry, regulatory bodies and other associations working to help combat money laundering. We stand ready to assist in the further development of an advocacy and educational campaign on behalf of the industry to help build and maintain a better understanding of the nuances in TBML.

TABLE I:

Transaction Types, Information Normally Available, the Potential For Detecting Documentary Trade Based Money Laundering and Typical Controls Applicable to Each Transaction

Transaction type	Is there an underlying trade transaction?	Potential for detecting Documentary TBML?	Do banks see trade documents?	When might a bank see underlying documents?	Controls may include: (See note at the foot of the table)
Check payment	Possibly	No	No	Only if specifically requested as part of a sanctions or post transaction AML monitoring trigger	<ul style="list-style-type: none"> Balance inquiry to ensure sufficient funds/credit check for payment
ACH payment	Possibly	No	No	Only if specifically requested as part of a post transaction AML monitoring trigger	<ul style="list-style-type: none"> Balance inquiry to ensure sufficient funds/credit check for payment
International ACH Transaction (IAT)	Possibly	No	No	Only if specifically requested as part of a sanctions or post transaction AML monitoring trigger	<ul style="list-style-type: none"> Balance inquiry to ensure sufficient funds/credit check for payment Potential Sanctions screening (not required for domestic U.S. ACH)
Funds Transfer (RTGS – Real Time Gross Settlement payment)	Possibly	No	No	Only if specifically requested as part of a sanctions or post transaction AML monitoring trigger	<ul style="list-style-type: none"> Balance inquiry to ensure sufficient funds/credit check for payment Check for completeness of payment details (depending on local regulatory requirements)
Bank-to-Bank Reimbursements	Yes	No	No	Only if specifically requested as part of a sanctions or post transaction AML monitoring trigger	<ul style="list-style-type: none"> Balance inquiry to ensure sufficient funds/credit check for payment
Clean collection	Possibly	Yes	No	Only if specifically requested as part of a sanctions or post transaction AML monitoring trigger	<ul style="list-style-type: none"> Balance inquiry to ensure sufficient funds
Documentary collection	Yes	Yes	Yes	Always	<ul style="list-style-type: none"> Sanctions screening of names appearing in documents
Guarantees	Yes	Yes	Not unless specified under the terms of the guarantee	Depending on the type of guarantee	<ul style="list-style-type: none"> Credit approval Sanctions screening at issuance Document review (including sanctions and red flags review) for payment
Standby Letter of Credit	Yes (in some cases)	Yes	Not unless specified under the terms of the standby	Only if specifically requested as part of a sanctions or post transaction AML monitoring trigger	<ul style="list-style-type: none"> Credit approval Sanctions screening at issuance Document review (including sanctions and red flags review) for payment
Documentary Letter of Credit	Yes	Yes	Yes	Always	<ul style="list-style-type: none"> Credit approval Sanctions screening at issuance Document review (including sanctions and red flags review) for payment and negotiation
Supply chain finance	Yes	Yes	Depends on the terms of the transaction	Unless required under the terms of the financing arrangement, documents would only be seen in the event of a sanctions or monitoring trigger	<ul style="list-style-type: none"> Credit approval Sanctions screening of names received in documentation/ electronic data received Sampling and verification of underlying transaction
Bank Payment Obligation	Yes	Yes	No, instead of documents the bank is involved in data matching	Only if specifically requested as part of a sanctions or post transaction AML monitoring trigger	<ul style="list-style-type: none"> Credit approval Sanctions screening of names received in documentation/ electronic data

Unless noted in the controls column in the table, real time sanctions screening of the payment should be in place for all products. Banks may also include information about whether a client uses a particular bank product in their due diligence files and also may conduct post transaction AML monitoring on account activity.

TABLE II:

Mapping of BAFT Red Flags to Payments, Open Account Trade Payments and Documentary Trade Transactions Including Payments

	BAFT Red Flags	Payments	Open Account Trade Payments	Documentary Trade Transactions including payments
1	The customer engages in transactions that are inconsistent with the customer's business strategy (e.g., a steel company that starts dealing in paper products) or make no economic sense.		X ¹⁵	X
2	A customer deviates significantly from its historical pattern of trade activity (i.e., in terms of markets, monetary value, frequency of transactions, volume or merchandise type)	X ¹⁶	X	X
3	Transacting parties appear to be affiliated, conduct business out of a residential address, or provide only a registered agent's address	X ¹⁷	X	X
4	Customer conducts business in jurisdictions that are at higher risk for money laundering, terrorist financing or other financial crimes	X ¹⁸	X	X
5	Customer shipping items to, through or from higher money-laundering risk jurisdictions including countries identified by the Financial Action Task Force as "non-cooperative jurisdictions" in regards to anti-money laundering regulations			X
6	Customers transacting in activities/goods that potentially involve a high risk of money laundering and other financial crimes including activities/goods that may be subject to export/import restrictions		X ¹⁹	X
7	Obvious over or under pricing of goods			X
8	Obvious misrepresentation of quantity of goods shipped			X
9	The payment terms or tenor are inconsistent with the type of goods			X
10	Transaction structure and/or shipment terms appear unnecessarily complex or unusual and designed to obscure the true nature of the transaction			X
11	The LC contains non-standard clauses or phrases or has unusual characteristics			X
12	The LC is frequently significantly amended for extensions, changes to the beneficiary and/or changes to the payment location			X
13	The transaction appears to involve use of front or shell companies for the purpose of hiding the true parties involved			X
14	The bank is approached by a previously unknown party whose identity is not clear, who seems evasive about its identity or connections, or whose references are not convincing, or payment instructions are changed at the last minute			X
15	Trade-related documentation under an LC or documentary collection appears illogical, altered, fraudulent, or certain documentation is absent that would be expected given the nature of the transaction			X
16	Transaction involves obvious dual use goods			X

15. Such as goods description codes, if established as a baseline for the client.

16. Beneficiary's country, if shown; amounts/volumes outside transaction averages.

17. Originator and beneficiary are similarly named.

18. For example, if the beneficiary's country is shown, and it appears on FATF's list of high risk and non-cooperative jurisdictions.

19. Customer's type of business per KYC record.

GLOSSARY OF TERMS

ACH payment

An electronic batch payment system that may or may not feature same-day settlement. Examples of ACH systems include the ACH in the U.S., BACS in the UK, and ECG in Hong Kong.

BAFT

BAFT is a leading international financial services trade association that helps bridge solutions across financial institutions, service providers and the regulatory community. It engages on a wide range of topics affecting transaction banking, including trade finance, payments and compliance.

Bank-to-Bank Reimbursement

A type of payment reimbursement under a documentary letter of credit whereby the bank issuing the documentary letter of credit authorizes a third bank (“reimbursing bank”) to honor reimbursement claims made by the nominated bank under the documentary credit.

Bank Payment Obligation

An irrevocable undertaking given by a bank to another bank that payment will be made on a specified date after successful electronic matching of data according to industry-wide ICC rules.

CHIPS

The Clearing House Interbank Payments System is the largest private-sector U.S.-dollar funds-transfer system in the world, clearing and settling an average of \$1.5 trillion in cross-border and domestic payments daily.

Clean collection

A “Clean Collection” means the handling by banks of financial documents, in accordance with instructions received, in order to: (1) obtain payment and/or acceptance, or (2) deliver financial documents against payment and/or against acceptance, or (3) deliver financial documents on other terms and conditions.

CRS

The Congressional Research Service (CRS) works exclusively for the United States Congress, providing policy and legal analysis to committees and Members of both the House and Senate, regardless of party affiliation. CRS is a legislative branch agency within the Library of Congress.

Documentary collection

A “Documentary Collection” means the handling by banks of commercial documents, which may or may not be accompanied by financial documents, in order to: (1) obtain payment and/or acceptance, or (2) deliver documents against payment and/or against acceptance, or (3) deliver documents on other terms and conditions.

Documentary letter of credit

An unconditional undertaking, given by a bank (the “Issuing Bank”) at the request of their customer (the Applicant or Importer) to pay the Beneficiary (or Supplier) against stipulated documents, provided all the terms and conditions in the Letter of Credit are complied with.

FATF

The Financial Action Task Force, established in 1989, is an intergovernmental organization that sets standards and promotes legislation as well as regulatory reform to combat money laundering, terrorist financing and other related threats to the international financial system.

FCA

The UK Financial Conduct Authority regulates the conduct of more than 56,000 financial services firms and financial markets and is the prudential regulator for over 18,000 of those firms. Its aim is to protect consumers, protect and enhance the integrity of the UK financial system, and to promote competition.

FFIEC

The Federal Financial Institutions Examination Council is a formal interagency body empowered to prescribe uniform principles, standards and report forms for the federal examination of financial institutions and to make recommendations to promote uniformity in the supervision of financial institutions. The FFIEC receives its authority from the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), the Office of the Comptroller of the Currency (OCC), and the Consumer Financial Protection Bureau (CFPB).

FinCEN

FinCEN is a bureau of the U.S. Department of the Treasury. The Director of FinCEN is appointed by the Secretary of the Treasury and reports to the Treasury Under Secretary for Terrorism and Financial Intelligence. FinCEN's mission is to safeguard the financial system from illicit use and combat money laundering and promote national security through the collection, analysis, and dissemination of financial intelligence and strategic use of financial authorities.

Global Financial Integrity (GFI)

Global Financial Integrity is a non-profit, Washington, DC-based research and advisory organization, which produces analyses of illicit financial flows, advises developing country governments on effective policy solutions, and promotes pragmatic transparency measures in the international financial system as a means to global development and security.

Guarantees

An undertaking given by a bank (guarantor) on behalf of its customer (applicant) to another party (beneficiary) to pay a stated sum of money if the customer fails to comply with a contractual obligation. The bank undertakes to pay a stated sum of money against presentation of specified document(s) in compliance with the terms of its guarantee.

International ACH (IAT) Transaction

A (US\$) debit or credit entry that is part of a payment transaction involving a financial agency's office that is not located in the territorial jurisdiction of the United States. Source NACHA.

RTGS payment

A gross settlement system in which both processing and final settlement of funds transfer instructions can take place continuously (i.e., in real time). Source: Basel Committee on Banking Supervision. Examples of RTGS systems include Fedwire, CHIPS and TARGET.

Standby letter of credit

A standby letter of credit is a guarantee of payment issued by a bank on behalf of a client that is used as “payment of last resort” should the client fail to fulfill a contractual commitment with a third party.

Supply chain finance

The use of financing and risk mitigation practices and techniques to optimize the management of the working capital and liquidity invested in supply chain processes and transactions. SCF is typically applied to open account trade and is triggered by supply chain events.

Wolfsberg

The Wolfsberg Group is an association of 13 global banks that aims to develop frameworks and guidance for the management of financial crime risks, particularly with respect to Know Your Customer, Anti-Money Laundering and Counter Terrorist Financing policies.

Working Group

The BAFT AML KYC Working Group (Working Group) includes experts in trade finance and compliance from BAFT's financial institution and supplier membership. Its mission is to assist in providing guidance and clarification on the complex financial-crime compliance requirements associated with trade finance activities.

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The Wolfsberg Group, ICC and BAFT Trade Finance Principles

2019 amendment



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Foreword to the 2019 amendment

Since the publication of the joint 2017 Wolfsberg Group, ICC and BAFT Trade Finance Principles paper and appendices much has happened in the way of discussion and cooperation between various industry groups in the space of financial crime related to Trade Finance.

The fruitful cooperation between the abovementioned three groups has continued and led to the paper you now have before you, which incorporates two new appendices; one on the subject of Bank to Bank Trade loans (also known as FI Trade Loans) and one on Open Account Trade Finance.

BAFT published their paper on Trade called Combating Trade Based Money Laundering: Rethinking the Approach in August 2017 and in March 2018 the Wolfsberg Group, with the support of the ICC and BAFT, launched a short awareness video focussed on Trade-Based Money Laundering¹.

And finally, in Singapore, the ACIP Public-Private Partnership between the Monetary Authority of Singapore (MAS), the Commercial Affairs Department of the Singapore Police Force (CAD), Singapore Customs and several local and international banks published two guidance papers in May 2018 on TBML and Legal Persons².

It is encouraging to see that the focus on preventing and identifying money laundering activity in global trade has not only increased over the past few years, but that it has shifted away from relying solely on the preventative measures from banks and that this is leading to more cooperation between regulators, law enforcement and banks (either directly or via industry groups).

As the chair of the Working Group, I would like to thank its members and support staff for their hard work, as well as the Wolfsberg Group Secretariat, the ICC Banking Commission and BAFT for their support.

Willem Toren

¹ [Wolfsberg Trade Based Money Laundering awareness video](#)

² <https://abs.org.sg/docs/library/best-practices-for-countering-trade-based-money-laundering.pdf>
<https://abs.org.sg/docs/library/legal-persons-misuse-typologies-and-best-practice.pdf>

2011 to 2017

The Wolfsberg Group Trade Finance Principles paper and appendices were last updated in 2011. Since then regulatory expectations and a more stringent application of existing regulations have made it necessary to review the paper, identify where expectations have changed and, therefore, where the basic principles or their application need to be readdressed.

Since 2011, the Wolfsberg Group has had an increasingly close dialogue with the ICC to see how the principles could be better disseminated to the ICC membership with a view to raising and standardising the practice level of Financial Crime Compliance (FCC) within the Trade Finance industry.

At that time, the only other publicly available guidance, which was specific to the United States, was the January 2008 BAFT IFSA “*Guidelines for Bank Secrecy Act/Anti-Money Laundering for Trade Services*”³ and a subsequent March 2015 BAFT global update entitled “*Guidance for Identifying Potentially Suspicious Activity in Letters of Credit and Documentary Collections*.⁴”

In discussion with many practitioners at ICC Banking Commission meetings and other industry events, it became clear that many banks saw the Wolfsberg Principles paper as being for “large global banks” and not for “our smaller, local banks.” There was also the view that if the ICC issued a guidance paper or official publication, then many more banks would see it as important to follow that guidance.

This led to the formation of the joint ICC-Wolfsberg Group Trade Finance Principles Drafting Group in April 2014, with a remit to redraft and update the Wolfsberg Trade Finance Principles paper in the style of ICC guidance, with members drawn from Wolfsberg Group banks, ICC members globally, as well as BAFT so as to broaden the global perspective as part of the drafting group.

It is important to note that the core principles have not changed, nor have the responsibilities of the banks involved in trade transactions to have a good knowledge of their customer or instructing party, the business that they conduct and with whom and where they are situated. Neither has the requirement for banks to follow strictly the regulations aimed at detecting and preventing Money Laundering, Financing of Terrorists or Terrorist Organisations, committing or assisting in Bribery and Corruption, evading tax liabilities, the proliferation of weapons of mass destruction and other financial crimes, or the evading or breaking of sanctions imposed on countries or individuals by competent authorities changed.

The core principles paper has been expanded to give more detail around what is meant by various risk mitigation activities, describes the challenges and limitations faced and also recommends actions that law enforcement, customs and other government agencies and policy makers still need to address to help the financial services industry meet its obligations under Financial Crimes Compliance frameworks.

In order to strengthen the description of the control and escalation framework that banks need to have in place in order to meet the core principles paper’s guidance, the former appendices V, VI and VII on Control, Escalation and the Glossary, have been incorporated as sections 2, 3 and 4 of the new Core paper, so that readers do not need to move between appendix and the Core paper to understand the guidance given in the product specific appendices.

It is strongly recommended that practitioners also refer to the other Wolfsberg Group papers in respect of Customer Due Diligence (CDD), Correspondent Banking, the use of SWIFT RMAs, and the Risk Based Approach (RBA) all of which reflect the requirements of regulators and the “International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation,” known as the FATF 40 Recommendations. These principles apply to all banks regardless of size and do not require a bank to have significant electronic systems to be in place to apply them. These principles are the basis of what was always considered to be “Good Banking Practice.” Readers should also acquaint themselves with the BAFT Guidance referenced above.

³ BAFT (2008), <https://baft.org/policy/document-library>

⁴ BAFT (2015), <https://baft.org/policy/document-library>

The former Chair of the Drafting Group, Neil Chantry, and the current Chair, Willem Toren, would like to express their gratitude to the members of the group for their diligence and endeavour in bringing this rewrite to fulfilment and to the support given by our teams and the ICC Secretariat staff.

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Trade Finance Principles

Summary and Highlights⁵

The Trade Finance Principles outlines the standards for the control of financial crime risks (FCRs) associated with Trade Finance activities. In this paper, the term “financial crime” refers to money laundering (all crimes including but not limited to, fraud, tax evasion, human trafficking), bribery and corruption, terrorist financing, the financing of proliferation of weapons of mass destruction and other related threats to the integrity of the international financial system.⁶

The Trade Finance Principles outlines the role of Financial Institutions (“FIs”) in the management of processes to:

- a. Address the risks of financial crime associated with Trade Finance activities.
- b. Aid compliance with national and regional sanctions and embargoes and with the Non-Proliferation of Weapons of Mass Destruction (“NPWMD”) requirements of the United Nations (“UN”).

It is important to understand that the **Core, Control, Escalation and Glossary** sections of the core principles paper are to be read as a whole with the individual product and services covered in the Appendices.

1. Core

1.1 Introduction

- 1.2 Trade Finance can be described as the provision of finance and services by FIs for the movement of goods and services between two points, either within a country or cross border. Both FIs and Trade Bodies (such as the International Chamber of Commerce and BAFT), as well as Governments are critical in promoting international commerce and free trade. FIs and Trade Bodies support the timely and efficient movement of goods, documents and payments, as well as, increasingly, data.
- 1.3 The Trade Finance activities covered in this paper comprise a mix of money transaction conduits, default undertakings, performance undertakings and the provision of specific trade-related credit facilities.
- 1.4 There is a perception that Trade Finance is a “higher risk” area of business from a financial crime perspective, therefore, all FIs involved in Trade Finance should have risk policies and controls which are appropriate for their business. FIs should have an end-to-end FCR management programme, which can be applied to Trade Finance and the specific products and transactions outlined in this paper.
- 1.5 Trade Based Money Laundering (“TBML”) has become a widely used term. It covers a broad spectrum of financial and other services, including those financial services referred to as Trade Finance, but also transactional activities across current and deposit accounts and payments for example, which are not in the purview of Trade Finance operations of FIs. The detection of unusual and potentially suspicious activities across transactional activities, should take place via whatever transaction monitoring systems and processes an FI has in place, be it manual or automated. For the purposes of this paper, the scope of TBML is restricted to the Trade Finance

⁵ In Sections 1 and 2, Banks and FIs are used interchangeably

⁶ The terms financial crime risk, money laundering or AML may be used interchangeably throughout the paper

activity represented by the documents contained in the transactions and supported by the management of the FCRs related to the specific activities laid out in this paper. This guidance is based upon the requirements of the FATF 40 recommendations and the best practices outlined in the UK FCA's Thematic Review TR13/3 of 2013.

1.6 The majority of world trade is carried out under "Open Account" terms, whereby the buyer and seller agree to the terms of the contract and goods are delivered to the buyer followed by a clean or netting payment through the banking system. Under such Open Account terms, unless the FI is providing credit facilities, the FI's involvement will be limited to the clean payment and it will not generally be aware of the underlying reason for the payment. As the FI has no visibility of the transaction, it is not able to carry out anything other than the standard anti-money laundering (AML) and sanctions screening on the clean or netting payment. If the FI is providing credit facilities in relation to the trade transaction there may be more opportunity to understand the underlying trade process and financial movements. Further reference to Open Account can be found in **Appendix IV: Open Account**.

1.7 This paper will address (through the appendices):

- a. The mechanisms used for the finance of the movement of goods or services across international boundaries.
- b. Standard Trade Finance products:
 - i. Documentary Credits ("DCs", sometimes referred to as Letters of Credit) and Documentary Bills for Collections ("BCs"). Although DCs and BCs can also be used domestically, this remains prevalent in non OECD countries. These standard products have trade related documents (invoices, transport documents) that are sent through FIs and may be examined by the FI for consistency with the terms of the trade transaction. Both these products are governed internationally by sets of rules of practice issued under the auspices of the International Chamber of Commerce ("Rules").⁷ These Rules, and the standard international banking practice they have created, affect the ways that FIs are able to apply FCR requirements. The Rules have been reflected in the decisions of courts in many jurisdictions and they impose court recognised timeframes and behaviour on FIs and trading parties, related to ensuring how the trade transaction is to be conducted and completed.
 - ii. Demand Guarantees (Financial and Performance) and Standby Letters of Credit ("SBLCs") in relation to Trade Finance.
 - iii. Open Account Trade as defined for Payables Finance and Receivables Discounting in the ICC Standard Definitions of Supply Chain Finance⁸.
 - iv. FI Trade Loans, also referred to as Bank-to-bank Trade Loans.

1.8 The paper will not address:

- a. Other products and or services associated with Trade Finance, such as newly emerging electronic trade finance solutions or specialised structured loan-based Trade Finance.
- b. Other risks that may be present in Trade Finance.

⁷ The relevant ICC Rules are for DCs "The Uniform Customs and Practice for Documentary Letters of Credit (2007 Revision), ICC Publication No. 600" and "The Uniform Rules for Collections, ICC Publication No. 522"

⁸ 'Standard Definitions for techniques of Supply Chain Finance' (<http://supplychainfinanceforum.org>)

1.9 For the purpose of this paper FI relationships are defined as follows:

- a. Customer Relationship ("Correspondent Bank"): The Wolfsberg Group definition of Correspondent Banking⁹ is "the provision of a current or other liability account, and related services, to another financial institution, including affiliates, used for the execution of third party payments and Trade Finance, as well as its own cash clearing, liquidity management and short-term borrowing or investment needs in a particular currency. A Correspondent Bank is effectively acting as its Correspondent's agent or conduit, executing and/or processing payments or other transactions for the Correspondent's customers. These customers may be individuals, legal entities or even other financial institutions. A correspondent relationship is characterised by its on-going, repetitive nature and does not generally exist in the context of one-off transactions." Payments can be made by the Respondent Bank via an account held with the Correspondent Bank, on the instructions of the Respondent Bank's customers. This type of activity poses a potential risk from a FCR perspective, as there is reliance on the Respondent Bank initiating payment to have policies and procedures that articulate appropriate levels of due diligence relating to payment initiators.
- b. Non-Customer Relationship: A Non-Customer Bank is a FI that does not have a payment account relationship, and therefore cannot make third party clean payments through the other Non-Customer Bank. A Non-Customer Bank, for the purposes of this paper, can only transact documentary credits (confirmation, negotiation and discount), collections and demand guarantees, or SBLCs. The relationship allows only for a SWIFT RMA¹⁰ plus (i.e. a Relationship Management Account) capability, whereby the FIs agree on the message types that can be exchanged relating to a subset of the MT400 message series for documentary collections and the MT700 series for documentary credits, SBLCs and demand guarantees. Thus, even though value can be exchanged via the exchange of trade documents, the FCRs are not always apparent because of the lack of the full view of the payment process. Payment is made via a mutual Correspondent or Central Bank clearing system. The underlying documents provide evidence of the transaction, some of which may be verified by reputable third parties, e.g. sea transport can be verified through the use of a well-known third party vessel and voyage history database service, or checking container numbers or voyage details through the International Maritime Bureau, a part of the ICC, in accordance with a FI's RBA.

1.10 Product Variations

There are a number of variations of the core products that are not covered in this paper and appendices. These variations put them outside the internationally accepted ICC Rules and therefore any controls that have been developed from the core products to manage the FCR, may not be in place or available as standardised control processes in the industry. It is up to individual FIs to consider the FCR inherent in these product variations and to apply suitable controls based on their RBA.

1.11 Additional appendices may be developed to reflect the growth of trade and the numerous techniques that have been and may be introduced as part of the Trade Finance market.

⁹ See the Wolfsberg Correspondent Banking Principles (2014), <http://www.wolfsberg-principles.com/pdf/standards/Wolfsberg-Correspondent-Banking-Principles-2014.pdf>

¹⁰ See the Wolfsberg Guidance on SWIFT Relationship Management Application (RMA) Due Diligence (2016), <http://www.wolfsberg-principles.com/pdf/home/SWIFT-RMA-Due-Diligence.pdf>

2. Parties in Trade Transactions

- 2.1 A Trade Transaction involves multiple parties. As a general rule, at least one party to the transaction should be identified as a customer and subject to appropriate due diligence procedures. FIs may apply a different level of due diligence depending on the nature of their role in the transaction, according to their RBA. That customer may be, but is not limited to, a corporation, Correspondent Bank or an individual.
- 2.2 Being active in international trade finance not only requires the FI to obtain a thorough understanding of their customers' business model at on-boarding (including their principal counterparties, the countries where these counterparties are located, the goods or services that are exchanged, as well as the expected annual transaction volumes and flows), it is becoming more and more apparent that regulators expect that this knowledge, obtained from customers, is reviewed (where appropriate) in conjunction with information provided during the actual trade transactions that the customer undertakes with the FI. This may lead to a greater emphasis on an active exchange of information between CDD information and transaction information.
- 2.3 International Standard Banking Practice recognises that FIs deal with documents and not with transport, delivery, goods, services, or performance to which the documents may relate. FIs do not get involved with the physical goods nor do they have the capability to do so. This overarching principle is the basis for defining what degree of scrutiny and understanding an FI can bring to the identification of unusual activity involving a Trade Finance transaction.
- 2.4 Relevant stakeholders at both a national and international level (which may include national bodies such as Governments, Law Enforcement Agencies, Financial Intelligence Units, Regulators, FATF, Export Credit Agencies, Customs and Excise, Tax Authorities, Port Authorities and businesses such as Shipping Agents and Carriers) should continue to recognise the need for on-going participation and co-operation in ensuring financial crime is not facilitated through Trade Finance activities.

3. Financial Crime Risks

- 3.1 Below are the elements of FCRs related to Trade Finance transactions that FIs should be aware of:

- a. Risks
 - i. It is recognised that international trade and the processes and systems that support it, are vulnerable to abuse for the purposes of financial crime. In recent years, there has been an increasing focus on these risks for a variety of reasons, including the continued growth in world trade. Furthermore, the fact that controls introduced by FIs in response to the more traditional money laundering techniques have become more robust means that other methods to transmit funds may have become more attractive to criminals.
 - ii. This paper does not cover Trade Based Money Laundering as defined in the FATF report on TBML, which covers multiple areas outside of the scope of Trade Finance. The FATF Report on Trade Based Money Laundering¹¹ highlights that problems are not limited to the Trade Finance activities in which FIs are directly involved, but that any process to move money through the banking system by simple payment may be manipulated as a means of financing trade in order to disguise the true underlying (and potentially illegal) activity. The report also highlights the importance on the roles of all stakeholders, not just FIs, in combating money laundering.

¹¹ FATF (2008), <http://www.fatf-gafi.org/documents/documents/bestpracticesontradebasedmoneylaundering.htm>

- iii. The use of Trade Finance to obscure the illegal movement of funds includes methods to misrepresent the price, quality or quantity of goods. Generally, these techniques rely upon collusion between the seller and buyer, since the intended outcome from such arrangements is obtaining a benefit in excess of what would be expected from an arm's length transaction. The collusion may arise because both parties are controlled by the same persons.
- iv. The transfer of value in this way may be accomplished in a variety of ways which are described briefly below:

Method	Description
Over Invoicing	By misrepresenting the price of the goods in the invoice and other documentation (stating it at above the true value) the seller gains excess value as a result of the payment.
Under Invoicing	By misrepresenting the price of the goods in the invoice and other documentation (stating it as below the true value) the buyer gains excess value when the payment is made.
Multiple Invoicing	By issuing more than one invoice for the same goods a seller can justify the receipt of multiple payments. This will be harder to detect if the colluding parties use more than one FI to facilitate the payments and/or transactions.
Short Shipping	The seller ships less than the invoiced quantity or quality of goods thereby misrepresenting the true value of goods in the documents. The effect is similar to over invoicing.
Over Shipping	The seller ships more than the invoiced quantity or quality of goods thereby misrepresenting the true value of goods in the documents. The effect is similar to under invoicing.
Deliberate obfuscation of the Type of Goods	Parties may structure a transaction in a way to avoid alerting any suspicion to FIs or to other third parties which become involved. This may simply involve omitting information from the relevant documentation or deliberately disguising or falsifying it. This activity may or may not involve a degree of collusion between the parties involved and may be for a variety of reasons or purposes.
Phantom Shipping	No goods are shipped and all documentation is completely falsified.

- v. Determining whether cases of over-invoicing or under-invoicing exist (or any other circumstances where there is misrepresentation of value) cannot easily be identified based on the trade documents alone. Furthermore, it is not feasible to make such determinations on the basis of external data sources; most products are not traded in public markets and therefore there are no publicly available market prices. Even in transactions involving regularly traded commodities, which are subject to publicly available market prices, FIs generally are not in a position to make meaningful determinations about the legitimacy of unit pricing due to the lack of relevant business information, such as the terms of a business relationship, volume discounting or the specific quality of the goods involved. However, there may be situations where unit pricing appears manifestly unusual, which may prompt appropriate enquiries to be made based on the FI's RBA.

b. Risk Assessments

- i. FIs should determine their own compliance requirements for Trade Finance using a RBA. The RBA relates to the steps taken for individual customers or transactions, based on that FI's analysis of the risks in relation to the parties involved, the type of transaction, monetary value of the transaction and other factors that may either increase or reduce the risk of financial crime in any given transaction. FIs should review these guidelines and incorporate, as appropriate, all or part of them into their internal processes.
- ii. The Wolfsberg Group has issued general guidance on a RBA¹² in relation to Trade Finance.

¹² Wolfsberg Statement - Guidance on a Risk Based Approach for Managing Money Laundering Risks (2006), [http://www.wolfsberg-principles.com/pdf/standards/Wolfsberg_RBA_Guidance_\(2006\).pdf](http://www.wolfsberg-principles.com/pdf/standards/Wolfsberg_RBA_Guidance_(2006).pdf)

- iii. When developing their RBA, FIs should take into consideration country factors such as the Corruption Perception Index, the FATF Deficient Countries list, sovereign and credit risk, country national risk assessment and the overall FCR environment. FIs should also take into consideration the type of relationship, such as a Customer relationship or a Non-Customer relationship.
- iv. As with their other lines of business, services, and products, FIs should apply a RBA to the assessment and management of risk in relation to Trade Finance.
- v. The assessment of risk and application of appropriate FCR controls depends on the role of an FI in a trade transaction. As Trade Finance transactions may involve a number of FIs there will be an interdependence between these institutions in respect of their responsibility to conduct underlying due diligence on their respective customers. A number of these FIs may be correspondents of one another and therefore the principles advocated in the Wolfsberg Correspondent Banking Principles¹³ are relevant.

c. Application of Controls

- i. FIs review trade transactions on an individual basis, for fraud, sanctions and for unusual and potentially suspicious activities. Generally transactions are examined for the application of relevant ICC rules and for whether the documented conditions conform to international standard banking practice and what is known of the customer.
- ii. The complex, paper based nature of transactions provides a large amount of information about the parties, goods, and services being transferred and involves scrutiny of the relevant documents. Whilst certain elements of this process may be automated (e.g. screening of transactions against published lists of sanctioned entities and individuals), the overall process of reviewing trade documents by its nature cannot be successfully automated. A combination of automated and manual controls will be relevant in the context of AML and counter-terrorist financing (CTF) efforts.
- iii. Individual FIs will configure their own transaction monitoring programmes accordingly, however it is difficult for one FI to manage all the FCRs in the end-to-end process given the multiplicity of parties involved (from producer or exporter to the final buyer).
- iv. The most effective method of identifying terrorist involvement in Trade Finance transactions is for competent authorities to identify individuals and organisations connected to terrorist activities and provide such information to FIs in a timely manner. Accordingly, Trade Finance controls, consisting of screening relevant transaction information against lists of known or suspected terrorists (designated parties) issued by competent authorities having jurisdiction over the relevant FI, are relevant in the context of CTF efforts.
- v. More specific guidance with regard to the nature and extent of controls that should be applied by the various FIs in relation to the underlying parties to the transaction and the documentation are set out in the Control Mechanisms section and in the appendices. **Appendix I: Documentary Credits, Appendix II: Bills for Collection, Appendix III: Guarantees and Standby Letters of Credit, Appendix IV: Open Account Trade, Appendix V: FI Trade Loans.**

¹³ Wolfsberg Anti-Money Laundering Principles for Correspondent Banking (2014), <http://www.wolfsberg-principles.com/pdf/standards/Wolfsberg-Correspondent-Banking-Principles-2014.pdf>

3.2 Documenting Decisions: As part of the application of controls in 3.1 c) above, FIs are expected to have procedures and processes in place which allow staff to record the basis of their decision in respect of any risk indicators or assessments of transaction risks that arise at any stage of a transaction. FIs are also expected to ensure that those comments are kept as part of the transaction audit trail for review as part of the control effectiveness and quality assurance processes, as well as evidence for audit and regulatory purposes.

4. National and Regional Sanctions, Embargoes and NPWMD

4.1 Below are the elements of national and regional sanctions, embargoes and the Non-Proliferation of Weapons of Mass Destruction (“NPWMD”) that FIs should be aware of.

For the purposes of this paper, the following definitions will be used:

- **Sanctions:** Economic and, or trade based measures taken by a government or international body to promote foreign policy or national security goals against certain jurisdictions or targeted individuals or entities. Sanctions can be sectoral, unilateral (imposed by only one country or body on one other country or body), or multilateral (imposed by one or more countries or bodies on a number of different countries or bodies).
- **Embargoes:** An embargo restricts commerce of exchange with a specified country. An embargo is usually created as a result of unfavourable political or economic circumstances between nations. The restriction looks to isolate the country and create difficulties for its governing body, forcing it to act on the underlying issue.
- **NPWMD:** This term refers to the prevention of proliferation of nuclear, chemical and biological weapons, as well as their means of delivery.
- **Anti-Boycott measures:** This term refers to measures undertaken by FIs to ensure that Trade Finance transactions do not become subject to non-sanctioned embargoes designed to isolate or create economic disadvantages for certain countries where there is countervailing legislation that they are subject to.
 - a. **Sanctions**
 - i. There are a variety of United Nations (“UN”) and other multilateral and unilateral sanctions and embargoes in place.
 - ii. There have also been a series of UN Security Council Resolutions which have inter alia introduced targeted financial sanctions and or activity based financial prohibitions in respect of certain countries which relate to the prevention of WMD proliferation and prevention of Terrorist Financing.
 - iii. These are augmented by:
 - Financial sanctions and embargoes that target specific individuals and entities
 - Trade based sanctions: Embargoes on the provision of certain goods, services, or expertise to certain countries.
 - iv. Sanctions that require the embargo of certain goods and services are particularly relevant to the provision and facilitation of Trade Finance products.

- b. Application of Controls
 - i. The controls to be applied in relation to complying with Sanctions, Embargoes and NPWMD include customer screening (both new and existing customers), transaction screening, payments screening and documents screening.
 - ii. The application of certain existing and appropriate financial crime controls may be considered relevant for the purpose of complying with national and regional sanctions and embargoes and NPWMD. More specific guidance with regard to the nature and extent of controls that should be applied together with a description of the limitations faced by FIs, are set out in ***Section 2 of the Core Principles Paper: Control Mechanisms.***
- 4.2 Documenting Decisions: As part of the application of controls in 4.1 b) above, FIs are expected to have procedures and processes in place to allow staff to record the basis of their decision in respect of any risk indicators or assessments of transaction risks that arise at any stage of a transaction. FIs are also expected to ensure that those comments are kept as part of the transaction audit trail for review as part of the control effectiveness and quality assurance processes, as well as evidence for audit and regulatory purposes.

5. Challenges

- 5.1 One of the most significant hurdles to effective enterprise wide FCR management is the controls on data protection and cross border information exchange. Such controls restrict the ability of FIs, as parties to a trade transaction, from accessing the relevant information required for due diligence on other parties. This will impact upon the effectiveness of transaction monitoring and screening.
- 5.2 Differing jurisdictional standards may impede global standardisation of due diligence requirements in Trade Finance transactions. Additionally, differing jurisdictional standards may cause some jurisdictions to have less stringent FCR controls than others. Such differences can lead to issues in respect of reliance on parties' systems and controls to conduct appropriate due diligence.
- 5.3 Differences in the scope and application of sanctions by various jurisdictions, which may create disparate or conflicting compliance or legal obligations, may present challenges for FIs relating to specific transactions and the assessments of a Customer or Non-Customer Relationship Bank in relation to FCC systems and controls.
- 5.4 Price verification for financial crime control purposes is difficult for FIs. FIs generally are not in a position to make meaningful determinations about the legitimacy of unit pricing due to the lack of relevant business information, such as the terms of a business relationship, volume discounting or the specific quality of the goods involved. Further, many products are not traded in public markets and there are no publicly available market prices. Even where goods are publicly traded, the current prices may not reflect the agreed price used in any contract of sale or purchase and these details will not usually be available to the FIs involved due to the competitive sensitivity of such information.
- 5.5 Dual use items are goods, software, technology, documents and diagrams, which may have both civil and military applications. Identification of dual use goods in a trade transaction is challenging given their possible complex and technical nature. While FIs may be in a position to identify obvious dual use goods; corporates, customers, Customs and export licensing agencies are better able to make this determination.

A FI's RBA should give guidance and provide regular training to staff involved in relationship management, transaction processing and any others who are involved in transactions on a regular basis (this should include Front Office and Middle Office staff involved in the transactions). Guidance and regular training may include how to perform an analysis of pricing for those goods where reliable and up-to-date pricing information can be obtained, how to identify where a unit price would be seen as obviously unusual and the escalation process that should be followed. The same applies to dual use goods. Staff should be aware of dual use goods issues, as well as the common types of goods which have a dual use and should attempt to identify dual use goods in transactions wherever possible.

- 5.6 Any methods used to hide the ultimate user of a product (such as through the use of intermediaries or the ultimate application or use of a product) often present a FCR in Trade Finance. Transactions involving multiple parties and transfers of ownership may disguise the true nature of a transaction, where such information may not be apparent to the FIs involved in that transaction.
- 5.7 FIs need to conduct significant work to ensure that all FCRs are routinely considered while processing Trade Finance transactions. Staff managing FCR at various levels in different departments require continuous training on how to identify potentially suspicious transactions.
- 5.8 It needs to be recognised that FIs around the world, especially those located in developing countries, are at different levels of maturity as far as the identification and application of FCR, CDD and Sanctions risks policies

and the implementation of appropriate mitigation processes required (variations in the level of sophistication of FCR systems and processes in FIs can be extreme, even within a single country). A FI's Risk Based Assessments of customers and transactions therefore need to take these country and regional differences into account when determining the level of risk mitigation and controls that are required to meet their principal regulators' expectations. Conversely, regulators need to be cognisant of these variations which will affect a FI's risk mitigation policies and processes to meet the risks in their geographical counterparty profile.

6. Recommendations

- 6.1 It is recommended that Governments, FIs, Trade Bodies and international Trade Logistics providers work together to counter the threat of financial crime within Trade Finance. This includes the ability of FIs to aggregate data freely across borders to identify, detect and prevent Financial Crime. All parties in the public and private sectors should ensure that there are clear data information exchange protocols. In order to support the cross border, enterprise wide exchange of information and data, co-operation and joint action is required by governments and other relevant authorities to ensure that laws relating to data protection, data privacy, the duty of confidentiality and any other relevant legislation do not impede the exchange of information in support of FCR management.

These recommendations include:

- a. The provision and maintenance, by relevant government authorities, of up to date suitably standardised lists of sanctioned entities and individuals, including appropriate identification data points and other relevant information to facilitate (i) effective screening and searching against customer databases and (ii) efficient and effective screening of transactions and relevant parties and information by FIs and other relevant stakeholders involved in the detection and prevention of Financial Crime.
- b. The provision of details, by relevant government authorities, in a manner that can be understood by non-experts, in respect of products and materials that relate to "Dual Use" goods. These details should ideally be capable of being integrated into electronic processing systems.
- c. The availability of effective "Help Desks" within relevant government authorities to respond to queries of a technical nature in relation to sanctions and in particular dual use goods. Such responses must be timely enough not to impact adversely the FI's obligations under the trade transaction or to alert potential perpetrators.
- d. The publication by the relevant authorities of the names of individuals and entities that have been denied export licences with the reasons for denial or who have been involved in criminal activities (including corruption) involving Trade Finance.
- e. Continuous dialogue between the public and private sectors in relation to the identification and dissemination of typologies and previously used risk indicators in respect of Trade Finance.
- f. The timely provision and maintenance by the authorities of up to date information in respect of the patterns, techniques and routes used by criminals and others to launder money, fund terrorism and breach sanctions in the Trade Finance area, as well as sharing of the typologies and giving feedback in relation to the SARs filed.

2. Control Mechanisms

1. Introduction

- 1.1 The Trade Finance Principles Paper sets out the background to Trade Finance and addresses associated FCRs.
- 1.2 **Appendices I, II, III, and IV**, dealing with DCs, BCs, SBLCs, Guarantees and Open Account, set out the extent to which FIs already address the challenges posed by Financial Crimes Risk, where known, in the context of all the activities they undertake. Sanctions exist in various forms both nationally and internationally. Some of these directly concern non-proliferation, weapons of mass destruction and dual use goods.
- 1.3 This section of the Principles paper highlights the control mechanisms considered most relevant to FIs and should be read in conjunction with the guidance on FCRs within the Core Trade Finance Principles paper and the other sections and appendices.
- 1.4 The Financial Action Task Force (“FATF”) Proliferation Report¹⁴ is a significant reference source. It identifies the important role of a number of stakeholders and acknowledges the difficulties which FIs face in detecting proliferation financing.
- 1.5 It is a requirement that FIs retain all evidence relating to FCR decisions made in the processing of all transactions, which must be kept with the transaction records and be readily available for review post transaction completion.
- 1.6 Risk based post transaction reviews and quality assurance processes should be established to determine, within a reasonable timeframe, if transactions have been appropriately evaluated and risk managed both with respect to Operational risk and FCR requirements, and that data in a CDD file is valid and current.
- 1.7 FIs need to be able to demonstrate that they have robust control review processes and procedures for alert management in place. This requires that there are records of the decision making process and the review of those decisions being checked and challenged where appropriate.

2. Customer Due Diligence

- 2.1 The due diligence process in relation to customers represents an important control and is one which is expected to be enhanced where higher risk circumstances are recognised. FIs will have a RBA in their policies and procedures around the on boarding and retention of customers. These will reflect, at the very least, the requirements of FATF Recommendation 10,¹⁵ the Interpretive Note to Recommendation 10 and an FI's primary regulators' requirements on CDD.
- 2.2 CDD for trade account customers, both borrowing and non-borrowing, requires the FI to have an understanding of the business model, the principal counterparties, the countries where the counterparties are located and the goods or services that are exchanged, as well as the expected annual transaction volumes and flows.
- 2.3 Depending on a FI's RBA and its risk appetite, Enhanced Due Diligence (EDD) may be required where the countries, products or customers involved are deemed to be High Risk, or where the goods are seen as being high risk or of a dual use nature.

¹⁴ FATF Proliferation Report (2008), <http://www.fatf-gafi.org/media/fatf/documents/reports/Typologies%20Report%20on%20Proliferation%20Financing.pdf>

¹⁵ FATF Recommendation 10, Text of Recommendation and Interpretative Note, <http://www.un.org/en/sc/ctc/docs/bestpractices/fatf/40recs-moneylaundering/fatf-rec10.pdf>

- 2.4 Relevant country, goods and principal counterparty names should be made available to trade processing staff so that they can easily check that a transaction is within the agreed profile of the customer. A RBA to the provision of counterparty names should be adopted due to the practicalities for customers with multiple counterparties.
- 2.5 The CDD processes will be expected to include “feed-back loops” where a trigger event in a transaction or normal review process leads to new information or questions about a relationship. This updating of the CDD profile ensures that the information in the CDD profile is current. The event reviews may also lead to the status of the relationship with the customer being escalated for decisions related to additional controls being applied or the exiting of the customer.

3. Name Screening

- 3.1 The application of FCC controls provides a good foundation for certain sanctions controls. FIs generally have screening systems or processes in place, which are designed to match information in processed transactions against relevant lists. This process can be applied to ensure that the transactions such as those described in the appendices do not violate UN or applicable local sanctions against named individuals and entities.

In order to achieve this, FIs need to refer to relevant external sources or subscribe to competent information providers.

- 3.2 Clearly, the effectiveness of this control is dependent upon the availability, accuracy, quality and usability of the source lists which contain the details of target names. A very substantial practical issue already faced by FIs is the volume of false hits which can occur in their systems as a result of automated screening. A false hit is where a partial or unconfirmed match occurs between bank data and the data in the relevant list. A partial match will occur where target names have similar or common elements with non-targets. An unconfirmed match, also known as a “False Positive”, would occur if the names match, but investigation confirms that the underlying identities are not the same.
- 3.3 FIs should have robust internal list management procedures in place to assist in reducing the numbers of repeat “False Positive” hits. This is to help reduce the possibility of too many false positives obscuring true positive hits and causing reviewers to miss actual issues.

4. Activity Based Financial Sanctions

- 4.1 Where the target of the relevant sanctions is indicated by industry, activity, geographical location (not country specific) or related to a sanctioned entity and not specifically identified by name, it makes any effective screening of a transaction by FIs exceptionally difficult, regardless of whether automated or manual processes are used.
- 4.2 FIs should be aware of UN resolutions in relation to the proliferation of nuclear weapons, WMD, Dual Use Goods and of relevant local legislation which translates these into national laws or regulations.
- 4.3 Guidance on this is also issued by FATF and by the relevant authorities in regions where an export licencing control regime is in place. Other programmes address the more conventional threat from missiles, chemical weapons and related activity. Available sources include the following:

- a. The Wassenaar Arrangement,¹⁶ which has been established in order to contribute to regional and international security and stability, by promoting transparency and greater responsibility in transfers of conventional arms and dual-use goods and technologies.
 - b. UN Security Council Resolution (UNSCR) 1737(2006)¹⁷
 - c. FATF Guidance including:
 - Implementation of financial provisions of UNSCRs to counter the proliferation of WMDs (updated 2013)¹⁸
 - FATF Guidance regarding the implementation of activity-based financial provisions of UNSCR 1737 (October 2007)¹⁹
 - FATF report on Proliferation Financing (June 2008)²⁰
 - FATF Combating Proliferation Financing: Status Report on Policy Development and Consultation (February 2010)²¹
 - d. Other supporting documents²²
- 4.4 FIs should, to the extent possible, use the available information in relation to parties giving them instructions, goods and the countries involved. It should, however, be recognised that any practical application of this information may be severely limited.
- 4.5 As with name screening (3.3), FIs should have robust list management processes and procedures in place to assist in reducing the numbers of repeat “False Positive” hits. This is to help reduce the possibility of too many false positives obscuring true positive hits and causing reviewers to miss actual issues.

5. Export Controls

- 5.1 It is the commercial counterparties to a trade transaction that, in the first instance, should determine whether an export licence is required and that should obtain such a licence if it is required. FIs are generally not in a position to determine, at any stage in a trade transaction, whether an export licence is required, or whether the commercial counterparties to the trade have obtained a valid export licence.
- 5.2 The documentation required for preparing a trade financing arrangement rarely contains a detailed description of the product, much less information as to whether there are any third-country licencing requirements attached to the product. Relevant government agencies, on the other hand, may be in a position to determine the need for any necessary licences and to verify whether they have been duly obtained.
- 5.3 Where highly structured Trade Finance transactions are concerned, or where EDD is conducted as a matter of routine, it may be appropriate for the FIs involved to obtain appropriate assurances that export licencing requirements have been satisfied.

¹⁶ The Wassenaar Arrangement on Export Controls for Conventional Arms and Dual-Use Goods and Technologies, <http://www.wassenaar.org/controllists/index.html>

¹⁷ UN Security Council Resolution (UNSCR) 1737 (2006), https://www.iaea.org/sites/default/files/unsc_res1737-2006.pdf

¹⁸ FATF (2013), <http://www.fatf-gafi.org/media/fatf/documents/recommendations/Guidance-UNSCRs-Prolif-WMD.pdf>

¹⁹ Consolidated with FATF Guidance: The Implementation of Financial Provisions of United Nations Security Council Resolutions to Counter the Proliferation of Weapons of Mass Destruction (2013), <http://www.fatf-gafi.org/documents/documents/unscr-proliferation-wmd.htm>

²⁰ FATF (2008), <http://www.fatf-gafi.org/media/fatf/documents/reports/Typologies%20Report%20on%20Proliferation%20Financing.pdf>

²¹ FATF (2010), <http://www.fatf-gafi.org/media/fatf/documents/reports/Status-report-proliferation-financing.pdf>

²² <http://www.iaea.org/DataCenter/index.html>

6. Limitations

- 6.1 The challenge facing FIs in their efforts to put in place suitable controls aimed at preventing or discovering financial crime in their trade finance business is considerable, particularly in relation to activity based financial sanctions. The following points are especially relevant.
- a. Payments made through FIs in support of Open Account trade (which accounts for approximately 80% of all international trade) can only be screened by reference to the disclosed name data.
 - b. The successful facilitation of international trade relies on the adherence to recognised international banking standards. Following initial CDD and once a customer transaction has been accepted and initiated, the remaining activities conducted by the participating FIs need to be completed within relevant specific timeframes.
 - c. Information or details within the documentation presented to FIs may be insufficient to disclose the exact nature of the transaction. Many trade transactions are only a part of a related chain of transactions and the FIs involved will have a view for that transaction only. Provided that there are no alerts that would indicate an issue with the transaction, a FI would continue with the transaction if it met the requirements of the customer CDD profile.
 - d. When handling BCs, in particular, a detailed examination of documents accompanying the BC is not possible. This is fundamentally different to the position under DCs, SBLCs, and Guarantees. This is because there is no initiating document in a BC transaction as there is in a DC or Guarantee or SBLC transaction (refer to Appendix II 6.5.b.)
 - e. Countries known to be involved directly may be named in sanctions, but countries which are technology producers or are “diversion risk” countries used for the transit or re-export of goods may well not appear on any warning lists.
 - f. The clarity of any additional information derived from a sanction screening hit or a FC risk indicator review. Often the information is ambiguous or contradictory. (Refer to Challenges and Recommendations in this paper).
- 6.2 Interpretation of “dual use” requires a degree of technical knowledge that DC, SBLC, and Guarantee FI staff cannot be expected to possess. In addition, goods descriptions may appear in the documents using a wording which does not allow the identification of such goods as “dual use.” Regardless of the details in the information sources, without the necessary technical qualifications and knowledge across a wide range of products and goods, the ability of a FI to understand the varying applications of dual use goods will be virtually impossible. It would be impracticable for FIs to employ departments of specialists for this purpose as in doing so they would need to replicate comprehensive scientific research facilities.
- 6.3 FIs are only one of the relevant stakeholders. Whilst FIs are a primary conduit for the movement of funds, substantial participation from other key stakeholders is required in order to provide an effective deterrence effort and to aid the detection or discovery of the relevant targets in this area.

3. Escalation Procedures

1. Introduction

- 1.1 The Trade Finance Principles Paper sets out the background to Trade Finance and addresses FCRs.
- 1.2 This section provides guidance on the specific application of controls by Banks²³ in the context of escalation procedures.

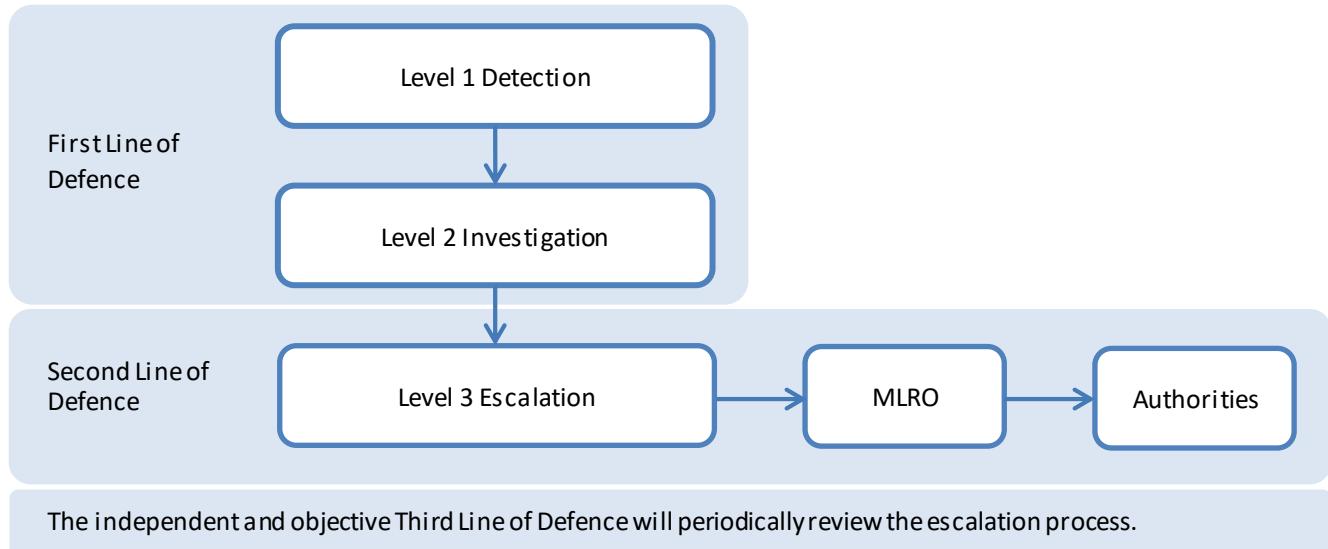
2. Three Lines of Defence

- 2.1 Banks involved in a trade transaction should ensure that they are cognisant of the Three Lines of Defence model, and that they implement the model in accordance with their RBA.
- 2.2 The first line of defence refers to business operations. Specifically, businesses are responsible for ensuring that a risk and control environment is established as part of day-to-day operations. Line management should thus be adequately skilled to create risk definitions and perform risk assessments. The first line of defence provides management assurance and informs business governance committees, by identifying risks and business improvement actions, implementing controls and reporting on progress.
- 2.3 The second line of defence refers to the oversight functions. The oversight functions set company boundaries by drafting and implementing policies and procedures. They are also responsible for guidance and direction for implementing their policies and for monitoring their proper execution. They provide oversight over business processes and risks.
- 2.4 The third line of defence refers to internal audit. The role of the third line of defence is to provide independent, objective assurance, as well as consulting activities designed to add value and improve a company's operations. They help the company to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

²³ Within this appendix, reference to Banks rather than FIs will be used given the need to refer to Banks in an accepted technical context in relation to Escalation Procedures

3. Application

- 3.1 To apply the three lines of defence model into their Trade Finance business, FIs may adopt the following model:



- 3.2 For the application of the three lines of defence model in Trade Finance, banks can build on existing transaction processes to add in at key points as described in Appendices I, II and III. At each stage of an intervention, the decision to refer or continue and the rationale needs to be recorded and kept on file. Details of the escalation, the review and decision rationale and action are kept for all stages of the escalation process up to and including the decision at Level 3 to record as an Unusual Transaction Report (internal record or however named) or to file a Suspicious Activity Report (SAR or STR) with the relevant Authorities.

4. Glossary

1. Terms

1.1 This section is a glossary of selected terms used generally in Trade Finance and in this Trade Finance Principles Paper:

- **Acceptance:** The act of giving a written undertaking on the face of a usance bill of exchange or draft, to pay a stated sum on the maturity date indicated on the bill of exchange. If an acceptance is created by a Bank, it is known as a Bankers Acceptance. If it is accepted by a corporate entity it is known as a Trade Acceptance. In Bills for Collection, documents of title to shipped goods are typically exchanged for a usance bill of exchange that has been accepted by the drawee (trade acceptance) when documents are sent using Documents against Acceptance (D/A) terms.
- **Account Payable:** A legally enforceable liability to a creditor recorded in the balance sheet, usually arising from purchases of goods and services on an open account basis and evidenced by a received invoice due to be paid within an agreed timeframe.
- **Account Receivable:** A legally enforceable claim for payment held by a business entity against its customer for goods supplied or services rendered in execution of the customer's order, and recorded on the balance sheet. Such claims generally take the form of invoices raised by a business and delivered to the customer for payment within an agreed timeframe.
- **Advising:** The act of conveying the terms and conditions of a Documentary Credit, Guarantee or SBLC to the beneficiary.
- **Advising Bank:** The Advising bank is a Correspondent Bank or a Non-Customer Bank of the issuing bank, usually located in the beneficiary's country. It is the bank nominated in the DC to authenticate and advise a DC, SBLC or Guarantee to the Beneficiary in accordance with the requirements of ICC Rules.
- **Amendment:** An alteration to the terms of a Documentary Credit or SBLC or Guarantee. Amendments must be issued by the issuing bank and advised to the beneficiary.
- **Anchor Party:** A party, usually a large buyer, who facilitates a buyer-led supply chain finance programme for its suppliers and whose credit risk is the economic basis of the finance provided. It is also used to describe a large seller which orchestrates a programme of Receivables Purchase financings in relation to its customers.
- **Anti-Boycott measures:** This term refers to measures undertaken by FI's to ensure that Trade Finance transactions do not become subject to non-sanctioned embargoes designed to isolate or create economic disadvantages for certain countries, where there is countervailing legislation that they are subject to.
- **Applicant:** The person or entity who applies to their bank to issue a Documentary Credit, SBLC or Guarantee. In the majority of DCs issued, the applicant is a buyer or importer of goods or services.
- **Back-to-Back Credit:** A Documentary Credit issued against the security of another Documentary Credit (master credit) on the understanding that reimbursement will stem from documents eventually presented under the first credit (master credit) issued. It follows therefore that each side of a Back to Back transaction

covers the shipment of the same goods although price differentials in the goods or services will exist since this is usually where the beneficiary of the Master credit makes a profit.

- **BAFT:** (The Bankers Association for Finance and Trade) is a leading international financial services trade association whose membership includes a broad range of financial institutions throughout the global community. BAFT helps bridge solutions across financial institutions, service providers and the regulatory community that promote sound financial practices enabling innovation, efficiency, and commercial growth. As a worldwide forum for analysis, discussion, and advocacy in international financial services, BAFT engages on a wide range of topics affecting transaction banking, including Trade Finance, payments, and compliance. BAFT member banks provide leadership to build consensus in preserving the safe and efficient conduct of the financial system worldwide.
- **Beneficiary:** A payee or recipient, usually of money. A party in whose favour a DC, SBLC or Guarantee is established. The beneficiary is usually the exporter or seller of the goods or services.
- **Bill for Collection (BC):** Documents (including a Bill of Exchange or Draft) submitted through a bank for collection of payment from the drawee, also known as a Documentary Collection.
- **Bill of Exchange or Draft:** A written unconditional order to pay, addressed by one party (the drawee) to another, signed by the party giving it (the drawer), requiring the drawee to pay the drawer a specified sum of money, on demand or at fixed or determinable future time.
- **BPO:** Bank Payment Obligation is an irrevocable undertaking by a bank to make a payment as specified in an agreed baseline of an electronic trade transaction made in accordance with the ICC BPO Rules, Publication 750E, in an approved TMA supplied controlled system.
- **Clean Payment:** Used to describe a payment which is handled without the presence of any underlying commercial documents.
- **Collecting Bank:** In Bills for Collections it is the Bank in the drawee's (buyer's) country that is instructed to collect payment from the drawee.
- **Collection Order:** Form submitted, with documents, to the remitting bank by the principal or exporter with his instructions. Also known as Collection Instruction.
- **Connected Party:** Person or entity that has some connection with the customer through having mutual managers, directors, owners, partners etc.
- **Confirm or Confirming:** Act of a bank, other than the issuing bank, assuming the liability for payment, acceptance or negotiation of conforming documents presented under a Documentary Credit or SBLC.
- **Confirming Bank:** Bank acting on the nomination of the issuing bank to act as the paying, accepting and paying on due date against conforming documents submitted by the beneficiary.
- **Contingent Liability:** A liability that arises only under specified conditions, e.g. when a bank opens a DC, SBLC or guarantee it incurs an obligation to make a future payment on condition that a conforming demand for payment is made under such DC, SBLC or Guarantee by the beneficiary.

- **Credit:** Where a bank lends money or assumes a contingent liability (that is providing a credit facility).
- **Default undertaking:** An irrevocable obligation made by a bank to make a payment should a named party fail to carry out or complete a stated activity within or by a specified time or date and in accordance with the stipulated documentary requirements to fulfil the claim for payment.
- **Dilutions:** are every situation that may reduce the value of an outstanding invoice except default by the debtor. Typical causes are returns, credit notes, commercial disputes etc.
- **Disclosed or undisclosed:** A situation when a finance provider undertakes a transaction such as a receivables purchase it may or may not be advised to or disclosed to the underlying debtor. Undisclosed might be described as Confidential or Non-Notification as in Confidential or Non-Notification Factoring.
- **Discounting:** Act of purchasing or prepaying an accepted bill of exchange or documents presented under Documentary Credit.
- **Discrepancy:** Any deviation from the terms and conditions of a Documentary Credit, SBLC or Guarantee, or from international standard banking practice or any applicable ICC rules found in the documents presented there under, or any inconsistency between the documents themselves.
- **Documentary Collection:** See Bill for Collection (BC).
- **Documentary Letter of Credit (DC):** Is a written undertaking by a bank (issuing bank) given to the seller (beneficiary) at the request of the buyer (applicant) to pay a stated sum of money against presentation of documents complying with the terms of the credit within a set time limit. There are three types of commercial DC: **Sight DCs, Acceptance DCs and Deferred Payment DCs** (the latter two types are often referred to as "Usance DCs" whereby payment is to be made at a date determined by the terms of the credit, e.g.: 120 days after Bill of Lading Date. A Deferred Payment DC is similar to an Acceptance DC except that no Bills of Exchange or drafts are presented or accepted. The issuing bank is responsible to make payment on the **Due Date**.
- **Documents against Acceptance (D/A):** Instruction used in Bills for Collection for documents to be released to the drawee in exchange for the drawee's acceptance of the Bill of Exchange, Draft or an irrevocable promise to pay at a determinable future date.
- **Documents against Payment (D/P):** Instruction used in Bills for Collection for commercial documents to be released to the drawee in exchange for payment.
- **Draft or Bill of Exchange:** A financial document evidencing a demand for payment of a stated sum of money. (see Bill of Exchange above).
- **Drawee:** The party from whom payment is expected.
- **Drawer:** The party who is demanding payment.
- **Due Date:** Maturity date for payment.

- **Due Diligence:** the risk based process for identifying and knowing the customer; the risk based controls in relation to parties who may not be customers. Requires gathering and storing of information about the company, the managers, owners and beneficial owners (silent partners) if any, trading partners, countries and goods or services traded.
- **Enhanced Due Diligence:** Additional level of questioning required to be answered where initial investigation of a customer or potential customer or counterparty has raised issues related to “risk indicators” or where the RBA of the firm has identified that further CDD information is required to satisfy the requirements to fulfil adequate due diligence in relation to that customer.
- **Embargoes:** An embargo restricts commerce or exchange with a specified country. An embargo is usually created as a result of unfavourable political or economic circumstances between nations. The restriction looks to isolate the country and create difficulties for its governing body, forcing it to act on the underlying issue.
- **Export Licence:** A permit, either electronic or on paper, issued by a government department or licensed body, including customs agencies, allowing the export of controlled items under stated conditions. Also used in general when a country has Foreign Exchange controls.
- **FATF:** The Financial Action Task Force (FATF) is an inter-governmental body established in 1989 by the Ministers of its Member jurisdictions. The objectives of the FATF are to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. The FATF is therefore a “policy-making body” which works to generate the necessary political will to bring about national legislative and regulatory reforms in these areas.

The FATF has developed a series of **Recommendations** that are recognised as the international standard for combating money laundering and the financing of terrorism and proliferation of weapons of mass destruction. They form the basis for a co-ordinated response to these threats to the integrity of the financial system and help ensure a level playing field. First issued in 1990, the FATF Recommendations were revised in 1996, 2001, 2003, and most recently in 2012 to ensure that they remain up to date and relevant, and they are intended to be of universal application.

- **Financial Crime:** Any criminal activity that involves the financial system or the use of money or anything that is of value, in order to perpetrate or assist in the perpetration of a criminal activity.
- **FCR (FCR or FC risk):** Are the risks associated with criminal activities involving the financial system. These risks are identified by a bank’s risk assessment of its business and are then managed by the application of the risk control framework the bank uses to mitigate those risks.
- **Guarantee:** An undertaking by a bank to make payment to a named beneficiary against a formal complying claim that another named party has failed to perform a specified action
- **Guarantor:** The bank issuing the Guarantee
- **International Chamber of Commerce (ICC):** ICC is the world’s largest business organization with a network of over 6.5 million members in more than 130 countries. ICC works to promote international trade, responsible business conduct and a global approach to regulation through a unique mix of advocacy and standard setting activities – together with market leading dispute resolution services. ICC’s members

include many of the world's largest companies, SMEs, Business associations and local chambers of commerce.²⁴

- **Import Licence.** A permit, either electronic or on paper, issued by a government department or licenced body, including customs agencies, allowing the import of controlled items under stated conditions. Also used in general when a country has Foreign Exchange controls.
- **ISP98:** The International Standby Practices ISP98, ICC Publication No. 590.
- **Issuing Bank or Issuer:** The bank that opens a Documentary Credit or SBLC or Guarantee at the request of its customer, the applicant.
- **Letter of Credit (LC):** Common parlance term. See Documentary Credit.
- **Negotiation: DCs:** The purchase by a nominated bank of drafts (drawn on a bank other than the nominated bank) or documents under a complying presentation under a Documentary Credit, by advancing or agreeing to advance funds to the beneficiary on or before the banking day on which reimbursement is due to the nominated bank.
- **Negotiation: BCs:** The purchase or discounting of the Bill of Exchange or Draft of a Collection by the Remitting Bank.
- **Network banks:** Are non-customer banks and have no accounts, facilities or dedicated Relationship Manager. They are sponsored by a global line of business and interactions are limited to document exchanges and restricted SWIFT RMA message interactions. The settlement of any transaction is decoupled from the document exchange and always made via a customer bank.
- **Nominated Bank:** A bank requested to carry out a specified action in accordance with the UCP or ISP 98.
- **NPWMD:** This term refers to the prevention of proliferation of nuclear, chemical, and biological weapons, as well as their means of delivery.
- **Opening Bank:** See Issuing Bank.
- **Payables finance:** A SCF technique provided through a buyer-led program within which sellers in the buyer's supply chain are able to access financing by means of Receivables Purchase. The technique provides a seller of goods or services with the option of receiving the discounted value of receivables (represented by outstanding invoices) prior to their actual due date and typically at a financing cost aligned with the credit risk of the buyer. The payable continues to be due by the buyer until its due date.
- **Performance risk:** The risk associated with a party's ability to meet its obligations under a contract, in particular to procure, manufacture and ship goods, or provide services in a timely fashion according to quality standards.
- **Physical Supply Chain:** A term used to describe the totality of the organizations, systems, people, activities, information, and resources involved in moving a product or service from supplier to a buyer.

²⁴ Definition from www.iccwbo.org

- **Presentation:** In Documentary Credit, SBLC and Guarantees, it is either the delivery of documents under a Documentary Credit and SBLC or Guarantee to the issuing bank or guarantor or to the nominated bank, or the documents so presented. In Bill for Collection, it is the act of a collecting bank, performing in the capacity of presenting bank, which contacts the drawee for payment or acceptance in accordance with the collection instruction.
- **Presenting Bank:** Under Documentary Credit SBLC and Guarantees, it is the bank that presents drafts and or documents or a claim for payment. In Bill for Collection, it is the collecting bank that makes presentation to the drawee.
- **Principal:** A term used in BCs that means the party entrusting the handling of a collection to a bank.
- **Receivable:** The amount due from a Debtor or Obligor to a Creditor. This includes, but is more extensive than trade-related Account Receivables and for instance covers the amount due under a Negotiable Instrument.
- **Receivables Discounting:** A defined SCF technique herein and is a form of Receivables Purchase, flexibly applied, in which sellers of goods and services sell individual receivables or numbers of receivables (represented by outstanding invoices) to a finance provider at a discount.
- **Receivables Purchase:** An agreement between a finance provider and a client (supplier) to cover the purchase of individual or a portfolio of receivables.
- **Red Flag:** So called from FATF and US Treasury typologies. Event triggers or indicators that are used to identify when a review or escalation activity needs to take place. Firms identify, (through their RBA processes, activities, data, or risk indicators) their own risk indicators for transactions, enhanced CDD requirements and escalation points. (For further reference; please see the BAFT issued Guidance for Identifying Potentially Suspicious Activity in Letters of Credit and Documentary Collections, March 2015)²⁵.
- **Reimbursing Bank:** The bank nominated by the DC issuing bank that will pay the value of the DC to the negotiating/paying bank.
- **Related Party:** Person or entity that is a subsidiary, associate, that has a relationship to the customer that is not at arm's length.
- **Relevant Party:** Person or entity that is identified as appropriate to carry enhanced due diligence screening when the name appears in related documents or in research activities during the on boarding or review processes.
- **Remitting Bank:** A term used in BCs that means the bank to which the principal has entrusted the handling of a collection.
- **RBA (RBA):** The RBA relates to the steps taken for individual customers or transactions, based on that FI's analysis of the risks in relation to the parties involved, the type of transaction, monetary value of the

²⁵ BAFT (2015), <https://baft.org/policy/document-library>

transaction and other factors that may either increase or reduce the risk of financial crime in any given transaction. The Wolfsberg Group has issued general guidance on a RBA²⁶ in relation to Trade Finance.

- **Sanctions:** An official order, such as, but not limited to, the stopping of trade, which is taken against a country in order to make it obey international law.
- **Schedule:** The remitting, negotiating presenting bank's letter covering bills of exchange and/or documents sent to the collecting or issuing bank, which lists the documents attached and gives collection and/or payment instructions. In BCs this is also known as the Collection Instruction.
- **Screening:** Processes, usually automated, whereby lists of names, entities, persons or countries derived from various official sanctions or prohibited persons lists are used to identify possible fraud, sanctions or other concerns with respect to a relationship or transaction.
- **Sight:** A term used to mean immediate payment. A bill of exchange or draft payable at sight is payable on presentation to the drawee, i.e. on demand.
- **Standby Letter of Credit:** A written undertaking by a bank (issuing bank) at the request of the applicant, to issue an irrevocable undertaking in favour of a named beneficiary.
- **Supply Chain Finance:** The use of financing and risk mitigation practices and techniques to optimize the management of the working capital and liquidity invested in supply chain processes and transactions. SCF is typically applied to open account trade and is triggered by supply chain events. Visibility of underlying trade flows by the finance provider(s) is a necessary component of such financing arrangements, which can be enabled by a technology platform.
- **SWIFT:** The Society for Worldwide Interbank Financial Telecommunication, headquartered in Belgium, is a global member-owned cooperative and is the world's leading provider of secure financial messaging services.
- **SWIFT RMA:** The RMA (Relationship Manager Application) is a messaging capability that enables members of the SWIFT network to exchange messages over the network. The use of RMA is mandatory for sending and receiving any SWIFT message. **RMA Plus:** Is a more restrictive arrangement allowing banks to limit the message types that can be exchanged between "correspondent network banks".²⁷
- **Trade Based Money Laundering:** Trade Based Money Laundering ("TBML") has become a widely used term. It covers a broad spectrum of financial and other services, including those financial services referred to as Trade Finance, but also transactional activities across current and deposit accounts, payments etc., which are not in the purview of Trade Finance operations of FIs. Typologies given by regulators in respect of TBML often describe in detail the use of "Funnel Accounts" as a part of a TBML typology. Detection of such funnel account operations may only be discovered by a bank's account activity monitoring systems and programme, and rarely through the trade transactions activity. Often the funnel accounts are not in the trade financing bank, with transfers of money from funnel accounts being made against false invoices or processes to bring the money into the account of the trade relationship in order to fund the legitimate trade

²⁶ Wolfsberg Statement - Guidance on a Risk Based Approach for Managing Money Laundering Risks (2006), [http://www.wolfsberg-principles.com/pdf/standards/Wolfsberg_RBA_Guidance_\(2006\).pdf](http://www.wolfsberg-principles.com/pdf/standards/Wolfsberg_RBA_Guidance_(2006).pdf)

²⁷ See the Wolfsberg Group's "Guidance on SWIFT Relationship Management Application (RMA) Due Diligence" paper (2016), <http://www.wolfsberg-principles.com/pdf/home/SWIFT-RMA-Due-Diligence.pdf>

transactions of the trading company. Often the trading company will have been taken over by the money launderers to facilitate the layering process.

- **Transaction Monitoring:** Process, either automated or manual, that is post transaction, whereby transactions are reviewed and assessed to identify if there are any suspicious or unusual activities or patterns in the customer's behaviours.
- **Transferable Credit:** Permits the beneficiary to transfer all or some of the rights and obligations under the Documentary Credit to one or more second beneficiaries. Not all DCs are transferrable. In order for a DC to be transferrable there must be a "Transfer clause" in accordance with the UCP, clearly noted in the text of the credit or by using the correct SWIFT message type, MT 720, 721.
- **TMA:** Transaction Matching Application is an independent electronic system operating a message platform in compliance with ISO 20022 which has transaction matching algorithms defined to manage a trade transaction in purchase order detail so that the seller and buyer can be confident that the order as placed is fulfilled. A bank or banks may add their Bank Payment Obligation to the transactions to provide certainty of payment. An example of a TMA is the SWIFT TSU (Trade Service Utility) provided as a service to member banks.
- **UCP 600:** ICC publication, Uniform Customs and Practice for Documentary Credits (2007 revision).
- **Unexplained Third Party:** Person or entity that appears in a transaction or payment instruction where there has been no previous identification of that person or entity in the structure or documentation relating to the transaction.
- **URC 522:** ICC publication, Uniform Rules for Collections (1995 revision).
- **URDG 758:** ICC Uniform Rules for Demand Guarantees.
- **URC 725:** Uniform Rules for Bank to Bank Reimbursements.
- **Usance Bill:** A Bill of Exchange (draft) which allows the drawee a term or period of time before payment (this period is also called usance). The term is usually stated in days (e.g. 30 days) and starts either from the date of the bill (e.g. 30 days date), from the date of shipment, or from sight by the drawee (e.g. 30 days sight) which in practice means from the date of acceptance.
- **Waive:** To relinquish a right; used in BCs with charges and or interest to be collected from the drawee; used in relation to DCs where the issuing bank agrees to pay for documents presented after waiving the presence of discrepancies in the documents.
- **With or without recourse:** in the case of 'with recourse' financing, the finance provider relies on the seller (of a receivable claim) for any shortfall in the event of non-payment. In a 'without recourse' facility or agreement, the finance provider relieves the seller of any further liability for the debt and accepts the entire credit risk of non-payment itself.

- **Wolfsberg Group:** The Wolfsberg Group is an association of thirteen global banks which aims to develop frameworks and guidance for the management of FCRs, particularly with respect to Know Your Customer, Anti-Money Laundering and Counter Terrorist Financing policies. The Wolfsberg Group consists of the following financial institutions: Banco Santander, Bank of America, Bank of Tokyo-Mitsubishi UFJ, Ltd, Barclays, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JPMorgan Chase, Société Générale, Standard Chartered and UBS.
- **Working Capital:** The financial resources invested by a business in financing its current trading operations usually expressed as the difference between Current Assets (receivables, inventory and operating cash balances) and Current Liabilities (payables and short term debt).

Appendix I: Documentary Credits

1. Introduction

1.1 The Trade Finance Principles Paper sets out the background to Trade Finance, as defined in Section 1 of the Core paper of this document, and addresses associated FCRs. The paper also comments on the application of controls in general and makes some observations on the subject of future co-operation between relevant stakeholders.

1.2 This appendix provides guidance on the specific application of controls by Banks²⁸ in the context of Documentary Credits (DCs). It is intended to reflect standard industry practice. In order to fully illustrate these controls the appendix uses a simplified scenario and then describes in some detail the control activities applied by the Banks involved. Where appropriate, any variations on the simplified scenario will be addressed.

1.3 The controls fall into the following categories:

a. **Due Diligence:** Defined in this paper as:

- the risk based process for identifying and knowing the customer;
- the risk based controls in relation to parties who may not be customers.

Given the range of meanings, reference will be made as necessary to appropriate risk based checks.

Each bank's established CDD policies should designate which party to a trade transaction is the customer and therefore subject to the bank's due diligence process. It is not the responsibility of the bank to perform due diligence on all parties to a trade transaction. (Refer to Section 2.1 of the Trade Finance Principles, Core Paper).

Banks should have risk based policies and procedures covering CDD, whereby all customers of the bank, which includes correspondent banks, will be subject to the bank's CDD procedures. Due diligence information should be made available to all areas handling Trade Finance customers and transactions, to enable them to understand the customer profile (including expected activity) and identify potential suspicious activity.²⁹

b. **Review:** Defined as any process (whether manual or automated) to review relevant information available in a transaction relating to the relevant parties involved, documents and data presented and instructions received. Certain information can, and should, be reviewed and checked before transactions are allowed to proceed.

Reviewing activity, as described in this paper, equates to document checking where the documents and their contents are checked for conformity. Appropriate FCR checks should be done based on the information in the documents, transaction details and relevant information from the CDD profile. References to "review cycle" relate to the customer CDD review process whereby the relationship as a whole is "reviewed" on an agreed cycle, typically a one to three year cycle dependent upon the bank's risk assessment of the customer.

²⁸ Within this appendix, reference to Banks rather than FIs will be used given the need to refer to Banks in an accepted technical context in relation to DCs

²⁹ BAFT: *Guidance for Identifying Potentially Suspicious Activity in Letters of Credit and Documentary Collections* (2015), <https://baft.org/policy/document-library>

- c. **Screening:** Processes, usually automated, whereby lists of names, entities, persons or countries, derived from various official sanctions or prohibited persons lists are used to identify possible fraud, sanctions or other concerns with respect to a relationship or transaction.

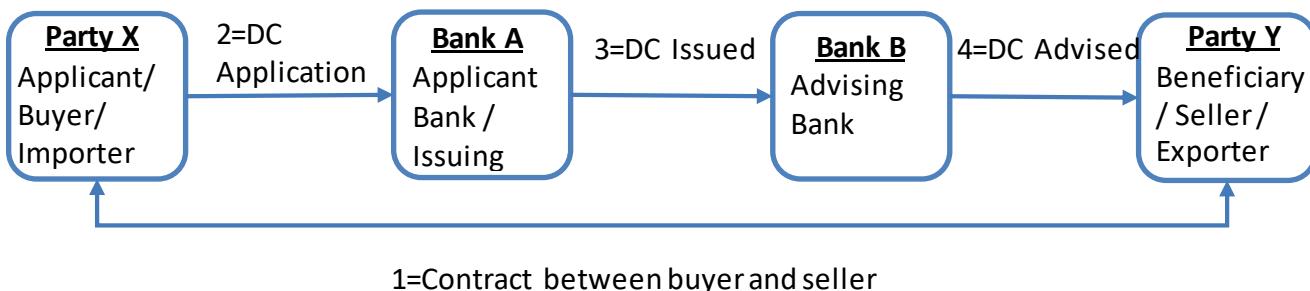
1.4 Transaction Monitoring: Defined as any activity to review completed or in progress transactions for the presence of unusual or potentially suspicious features. For Documentary Trade transactions, it should be recognised that it is difficult, if not impossible, to introduce any standard patterning techniques in relation to transaction monitoring processes or systems. This is due to the range of variations which are present even in normal trading patterns. The significant presence of paper documents in this type of trade, and the continuing difficulty of global trade businesses to fully adopt standardised electronic solutions, will continue to see a need for manual input even in transaction monitoring. While the latest technological developments may give rise to the possibility of automation and pattern based recognition systems, these systems are still under development, are unproven and represent investment requirements that will be attainable only to larger banks. A summary of control activities is provided in tabular form at the end of this appendix. For further reference, some of the terms used in this guidance are defined in **Section 4: Glossary of Terms**.

1.5 It is important to note that with DCs the banks typically operate in accordance with ICC Publication No. 600 – Uniform Customs and Practice for Documentary Credits.³⁰ The extent of reviewing activity which banks carry out is determined by their responsibilities as defined within these internationally accepted rules. These rules are fundamentally different to the rules governing Bills for Collection (refer to **Appendix II**).

The checking of information in documents to meet the requirements of the DC under UCP and International Standard Banking Practice is not the same as checking documents for AML or sanctions purposes. The UCP does not require the line by line detailed examination of all documents presented, nor of the printed terms and conditions on documents such as transport, insurance and other “official” documents presented. The AML checks will be based on the RBA of a bank and its instructions and education given to trade operations and related staff.

2.

Simplified Scenario - DC



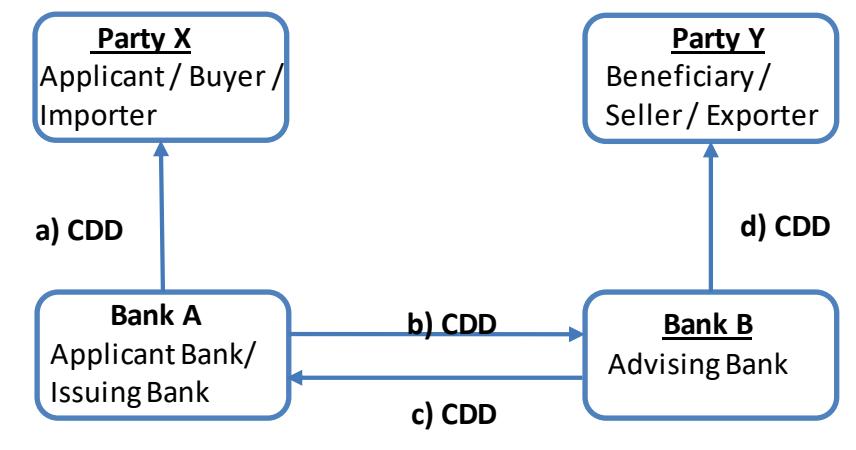
2.1 As depicted in the diagram, Party X is purchasing goods from one of their suppliers, Party Y. Party X is the customer of Bank A, and Party Y may or may not be a customer of Bank B.

³⁰ “The Uniform Customs and Practice for Documentary Letters of Credit (2007 Revision), ICC Publication No. 600

- 2.2 Prior to shipping the goods, Party Y wants to know that they will be paid once the shipment has been made, so Party Y requests that a DC be issued in its favour, with payment to be made only against the receipt of stipulated documents related to the shipment of goods by Party X's Bank, BankA.
- 2.3 Party X instructs Bank A to issue a DC in favour of a Seller, Party Y.
- 2.4 Bank A selects Bank B (its correspondent bank or Party Y's nominated bank) to advise the DC to Party Y locally. After the presentation of documents by Party Y through Bank B, and having found the documents to be in order, Bank A will pay under the DC.
- 2.5 An overview of the due diligence and reviewing activities is provided in the tables below.

3.

Due Diligence Overview - DC

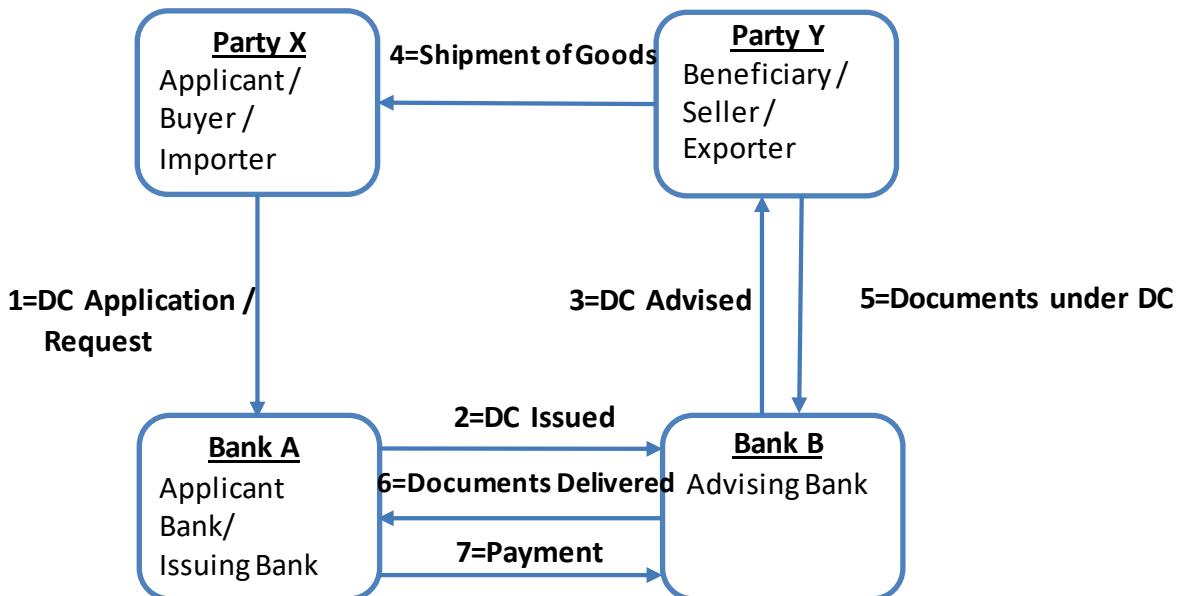


- 3.1 The banks conduct due diligence, which usually follows the pattern described below:³¹
- Bank A will conduct due diligence on Party X (when on boarding and during the account CDD review cycle).
 - Bank A should conduct appropriate risk based due diligence on Bank B and at CDD review.
 - Bank B should conduct appropriate risk based due diligence on Bank A and at CDD review.
 - Bank B will conduct risk based due diligence on Party Y where Party Y is B's customer.
 - Bank B will conduct appropriate risk based control checks on Party Y where Party Y is not B's customer.

³¹ This information is obtained prior to transactional activity and the data is made available to the processing department during the transactional verification process.

4.

Review Activity Overview - DC



- 4.1 Once the DC is initiated by Party X the banks will, in the normal course of DC practice, review the transaction at various stages through to the eventual payment being made. This reviewing activity will normally follow the pattern described below:
- Bank A will review the DC application from Party X (before agreeing to issue DC).
 - Bank B will review the DC as issued when received from Bank A (before agreeing to advise it).
 - Bank B may review the documents presented by Party Y (when receiving them under the DC from Party Y) applying a RBA.
 - Bank A will review the documents and payment instructions presented by Bank B (before paying Bank B - who will in turn pay Party Y).
 - Bank A and Bank B will screen the payment which they make or receive as per their financial crime policy, procedures and controls.

5. Controls undertaken by Bank A

5.1 Party X Due Diligence:

- Bank A should conduct due diligence³² as appropriate on Party X (who is a customer of Bank A) prior to issuance of the original DC. This is likely to involve a series of standardised procedures for account opening

³² Identification, verification screening, CDD (and credit approval)

within Bank A. The due diligence will support an on-going relationship with Party X and is not required for each subsequent DC applied for.

- b. This would be available for use by Trade Finance operations for confirmation that each transaction is in accordance with the CDD profile.
- c. Bank A's due diligence process should include, where DC facilities are required, the following questions:
 - The countries in relation to which Party X buys and sells
 - The goods traded
 - The type and nature of parties with whom Party X does business (e.g. customers, suppliers, etc. This does not imply that a counter party CDD is required)

Based on the responses to these questions, it may be required to conduct EDD.

- d. Additionally, Bank A can be expected to have a RBA to obtaining information on a transactional basis about the role and location of agents and other third parties used by Party X in relation to the business (where this information is provided by Party X).

5.2 Enhanced Due Diligence (EDD):

- a. An enhanced due diligence process should be applied, within the normal process of due diligence, where Party X falls into a higher risk category or where the nature of their trade, as disclosed during the standard due diligence process, suggests that enhanced due diligence would be prudent (See the FATF 40 Recommendations,³³ Section 10 Guideline H).
- b. An EDD process should be designed to ensure clear understanding of the trade cycle, to gain assurances regarding customers' compliance systems (which could include but are not limited to cross border controls and licencing regulations) and to ensure understanding of payment flows.
- c. Trigger Events:
There may be trigger events during the on boarding stage or during the ongoing review of a relationship or during the transaction process
 - The nature of business and the anticipated or actual transactions as described and disclosed in the initial due diligence stage or during the relationship may not necessarily suggest a higher risk category. However if, during the course of any transaction, any additional risk factors become apparent, this may warrant additional or enhanced due diligence
 - This due diligence may include third parties (i.e. parties not associated with Bank A, intermediaries or traders using back to back or transferable DCs to unconnected other parties)

5.3 Bank B Due Diligence:

- a. Bank A should undertake appropriate due diligence on Bank B, depending on the nature of the relationship between Bank A and Bank B. The due diligence will support an on-going relationship with Bank B, which will be subject to a relevant risk based review cycle. Therefore, additional due diligence on Bank B for any subsequent transactions is not required.

³³ FATF 40 Recommendations (2012), http://www.fatf-gafi.org/publications_fatfrecommendations/documents/fatf-recommendations.html

- b. See the Wolfsberg Correspondent Banking Principles³⁴ and FAQs for guidance with respect to the level of due diligence to be performed in relation to Bank B.

5.4 Reviewing of transactional information:

Reviewing and screening will occur at initiation and during the life cycle of the DC transaction, principally at the following stages:

- a. Receipt of the initial DC application (and any amendments) from Party X
- b. Receipt and checking of documents presented by Party Y through Bank B
- c. Payment
- d. At other times where material changes to the transaction occur.

In practice, once a DC has been issued, Bank A has an obligation to complete the transaction. Only if subsequent reviewing activity shows a positive screening match would Bank A be in a position to stop the transaction. Depending on local law there may be circumstances where fraud would also allow the transaction to be stopped.

The documentation presented to Bank A will be examined to ensure compliance with the DC and in accordance with the UCP and international banking standards.³⁵ This review does not need to involve a detailed examination of all the information in all the documentation.

A detailed explanation of potential reviewing activities is set out below.

Stage 1: Reviewing the DC application

Appropriate reviews should be conducted by Bank A in relation to the Documentary Credit application when received from Party X, which takes account of the following:

Sanctions and Terrorist lists which may affect:

- o Directly, Party Y as a named target
- o The country in which Party Y is located
- o The goods involved
- o The country where goods are shipped from, disclosed transhipment points and destination points
- o All other names appearing in the DC

The countries, which are rated as high risk for other reasons, in which:

- o Bank B or Party Y are located
- o The transportation of goods occurs

The goods described in the transaction to check if:

³⁴ Wolfsberg Anti-Money Laundering Principles for Correspondent Banking (2014), <http://www.wolfsberg-principles.com/pdf/standards/Wolfsberg-Correspondent-Banking-Principles-2014.pdf>

³⁵ The relevant ICC Rules for DCs are "The Uniform Customs and Practice for Documentary Letters of Credit (2007 Revision), ICC Publication No. 600, and "The Uniform Rules for Collections, ICC Publication No. 522".

- The type and quantity of goods, and value of transactions, is not inconsistent with what is known of Party X

The seller (Party Y)

- On the face of the application they are the kind of counterparty which is consistent with what is known of Party X and their business

Risk indicators and Unusual Activity

Depending on the information arising from this reviewing process Bank A may need to:

- Make further internal enquiries as to the appropriate course of action
- Request more information from Party X before agreeing to proceed with the transaction
- Allow the transaction to proceed to issuance of the DC, but make a record of the circumstances that allowed the DC to be issued for review purposes
- Depending on circumstances, local regulatory and legal requirements Bank A must file a suspicious activity report to the appropriate Authority and take any additional action as required by local laws and regulations

Stage 2: Reviewing the documents presented under the DC

Appropriate reviews should be conducted by Bank A in relation to the documents presented by Bank B, which should take account of the following:

- The lapse of time between stage 1 and stage 2, since this can raise the need for a further check of any relevant sanctions or binding local regulations
- Local legal requirements
- The screening of all names and parties related to the transaction against current applicable lists
- The extent to which documents presented match the information already checked in the DC at the time of presentation. If the information matches, it means that the reviewing would have already taken place when checking the DC, therefore relevant AML reviewing activities do not need to be repeated.
- Checking of the received documents against any Risk indicators or scenarios that Bank A has determined to apply in its RBA.
- Decline the transaction if enquiries do not provide reasonable explanations and, subject to circumstances and local legal requirements, submit an internal suspicious activity report to the appropriate department that handles FCRs.
- Depending on circumstances, local regulatory and legal requirements Bank A must file a suspicious activity report to the appropriate Authority and take any additional action as required by local laws and regulations.

- **Stage 3: Making the payment**

When making payment, Bank A will screen the names in the payment instructions, including the names of any banks involved. Therefore in the event that Party Y requests transfer of funds to an account with a bank not involved in the DC, that bank's name should be subjected to screening by Bank A.

5.5 Monitoring:

- For Bank A the monitoring opportunities arise from:
 - The normal procedures for monitoring Party X's account and transactional activity
 - Party X's activity observed from business as usual trade processing

5.6 Ongoing Due Diligence by Bank A:

- Bank A will rely heavily on the initial and ongoing due diligence conducted on Party X. It will not be practical or commercially viable for Bank A continually to seek additional assurances from Party X as every new transaction is received for processing. This would hamper the efficiency of processing and undermine the trust which is normal in the relationship between Bank A and Party X.
- There should be ongoing reviews of the relationship on a periodic basis.

6. Controls undertaken by Bank B

6.1 Due Diligence:

- It will not normally be practical for Bank B to undertake any due diligence on Party X aside from the reviewing of Party X's name against sanctions or terrorist lists.
- Bank B should undertake appropriate due diligence on Bank A. The due diligence may support an ongoing relationship with Bank A which will be subject to a relevant risk based review cycle. Due diligence on Bank A is not therefore required in relation to each subsequent transaction.
- In other circumstances Bank B may simply act as a local processing correspondent in which case due diligence may be conducted on a different basis. As a minimum Bank B will need to ensure that there is a means of authenticating any DC received from Bank A.
- See the Wolfsberg Correspondent Banking Standards³⁶ and the Wolfsberg Guidance on SWIFT Relationship Management Application (RMA) Due Diligence³⁷ for guidance with respect to the level of due diligence to be performed in relation to Bank A.
- Bank B may have an existing relationship with Party Y in which case appropriate due diligence procedures should already have been completed.

³⁶ Wolfsberg Anti-Money Laundering Principles for Correspondent Banking (2014), <http://www.wolfsberg-principles.com/pdf/standards/Wolfsberg-Correspondent-Banking-Principles-2014.pdf>

³⁷ Wolfsberg Guidance on SWIFT Relationship Management Application (RMA) Due Diligence (2016), <http://www.wolfsberg-principles.com/pdf/home/SWIFT-RMA-Due-Diligence.pdf>

- f. However, Bank B may not have any relationship with Party Y because Bank A could have selected Bank B for its own reasons (e.g. there is an existing correspondent relationship in place between Bank A and Bank B). Alternatively Party Y's own bank may not engage in Trade Finance business or the processing of DCs. In this case Bank B will need to undertake certain checks in relation to Party Y as described below as per the banks RBA.
- g. Furthermore, Bank B may act in a number of different capacities in addition to that of the advising bank as described in the simplified scenario at the beginning of this guidance. Each role as defined by the UCP determines the level of review that a bank will undertake, and therefore the level of compliance related activity will depend on that role.

It is important to recognise these different roles, as they have a direct bearing on the controls which will apply in the context of checks (and reviewing and monitoring), undertaken by Bank B in different situations. Furthermore, there may be other banks which will, out of necessity, become involved in the transaction before it is fully completed.

The following table illustrates the different roles of Bank B and the checks which may be needed in respect of Party Y, in addition to the usual checks as defined in Stage 1, 2 and 3 above:

Role of Bank B	Checks conducted in relation to Party Y where Y is not B's customer
Advising bank	Name screening of Party Y for Sanctions purposes.
Transferring bank	Name screening of Party Y for sanctions purposes. Payment must only be made to a bank (which has been name screened for sanctions) through an established payment channel. Additional checks on Y may be required using a RBA.
Confirming bank	Name screening of Party Y for sanctions purposes. Payment must only be made to a bank (which has been name screened for sanctions) through an established payment channel. Additional checks on Y may be required using a RBA.
Negotiating or discounting a presentation under DC	Name screening of Party Y Presentation of documents to Bank B has to occur via Party Y's Bank (i.e. no direct presentation of documents by Party Y without appropriate non-customer risk based controls) Payment must only be made to a bank (which has been name screened for sanctions) through an established payment channel. Additional checks on Y may be required using a RBA
Making payment on behalf of Bank A after handling documents	Name screening of Party Y for sanctions purposes. Payment must only be made to a bank, (which has passed name screening for sanctions), through an established payment channel.
Reimbursing bank – will debit bank A's account to settle the claim from the bank which pays Y	Payment must only be made to a bank (which has been name screened for sanctions) through an established payment channel.

- h. Bank B may well undertake all these roles if they are required. If another bank is undertaking any of these additional roles then the same checks would be relevant for that other bank.
- i. Additional checks in relation to Bank A or Party Y may be appropriate where higher risk factors become evident. This would be the case whether or not there is an existing relationship with Bank B in accordance with Bank B's RBA.

6.2 Reviewing:

- a. Reviewing may take place principally at three stages; - i.e. reviewing the DC issued while advising, transferring, confirming, reviewing the documents presented and making the payment. A detailed explanation of potential reviewing activities is set out below:

Stage 1: Reviewing the DC received

Appropriate reviewing should be conducted by Bank B in relation to the DC when received from Bank A, which will take account of the following:

- Sanctions and Terrorist lists, which may affect:
 - Directly, any named Party
 - The country in which Party X is located
 - The goods involved
 - The country where the goods are shipped from, any disclosed transhipment points and destination points
 - Names appearing in the DC
- The countries which are rated as high risk for other reasons in which:
 - Bank A or Party X are located
 - The transportation of goods occurs
- The goods described in the transaction to ensure that:
 - The nature, type and value of these goods appear to make sense
- The applicant of the DC (Party X) to ensure that:
 - As a result of any screening activity Bank B would not regard them as unacceptably high risk

Risk indicators and Unusual Activity

- Depending on the information arising from this reviewing process Bank B may need to:
 - Make further internal enquiries as to the appropriate course of action
 - Request more information from Bank A (or Party Y) before agreeing to proceed with the transaction
 - Allow the transaction to proceed but make a record of the circumstances for reviewing purposes
 - Depending on circumstances, local regulatory and legal requirements, Bank A must file a suspicious activity report to the appropriate Authority and take any additional action as required by local laws and regulations

Stage 2: Reviewing the documents presented

- Appropriate reviewing should be conducted by Bank B in relation to the documents presented by Party Y which should take account of the following:
 - The lapse of time between Stage 1 and Stage 2 since this might raise the need for a further check of any relevant sanctions or binding local regulations

- The extent to which the documents presented comply with the terms and conditions of the DC and that the documents are consistent among themselves and the information contained therein do not conflict
 - Whether an unusual payment instruction is given by Party Y
 - The screening of all names and parties related to the transaction against current applicable lists
- Depending on the information arising from this reviewing process Bank B may need to:
 - Make further internal enquiries as to the appropriate course of action
 - Request more information from Party Y before agreeing to proceed with the transaction
 - Allow the transaction to proceed but make a record of the circumstances for review purposes
- Checking of the received documents against any Risk indicators or scenarios that Bank B has determined to apply in its RBA.
- Depending on circumstances, local regulatory and legal requirements, Bank A must file a suspicious activity report to the appropriate Authority and take any additional action as required by local laws and regulations.

Stage 3: Making the payment

- When making payment Bank B will review the names in the payment instructions, including the names of any banks involved.

6.3 Monitoring:

For Bank B the monitoring opportunities arise from:

- a. The normal procedures for monitoring the activity relevant to their correspondent Bank A. This will be dependent upon the systems in place to measure such activity as per the bank's RBA.
- b. Where Party Y is Bank B's customer, the normal procedures for monitoring the account and payment activity.
- c. Where Party Y is not Bank B's customer, activity observed from business as usual trade processing.

6.4 Limitations faced by Bank B:

- a. Bank B is not the originator of the transaction, but is requested to act on instructions received from Bank A (although it is not obliged to do so). In accordance with established practice for handling DCs, Bank B will have limited time in which to act upon such instructions. Bank B may then receive supplementary instructions from either Bank A or Party Y.
- b. The level of reviewing and monitoring which Bank B may conduct on Bank A, or Party Y in the absence of an existing and established relationship with any of them, will be subject to a RBA related to the precise capacity in which it is acting. This may be limited to reviewing relevant Party names against sanctions or terrorist lists.

7. Risk Indicators, Pre- and Post-Event:

- a. A DC is an independent undertaking issued by a bank on behalf of its customer to support a business transaction between the bank's customer (usually the buyer) and the counter party (usually the seller). Contract terms will be agreed between seller and buyer and then communicated to the buyer's bank so that the DC can be issued. The terms of each DC reflect a unique combination of factors involving the specific nature of the underlying trade transaction, the nature of the business relationship between the counterparties to the transaction, the nature and terms of the financing arrangement, and the nature of the relationship between the financial institutions that are Party to the financing and payment arrangements.
- b. Since the full execution of each DC transaction is a fragmented process involving a number of parties, each with varying degrees of information about the transaction, it is extremely rare for any one Bank to have the opportunity to review an overall trade financing process in complete detail given the premise of the trade business that banks deal only in documents. Furthermore it is relevant to note that:
 - Different Banks have varying degrees of systems capabilities which will lead to industry wide differences in their reviewing abilities
 - Commercial practices and industry standards determine finite timescales in which to act.
 - Banks around the world, especially those located in developing countries, are at different levels of maturity as far as application of ML, CDD and Sanctions risks and the mitigation thereof (variations in the level of sophistication of FCR systems and processes in banks can be extreme, even within a single country). In determining whether transactions are unusual due to over or under invoicing (or any other circumstances where there is misrepresentation of value) it needs to be understood that Banks are not generally equipped to make this assessment.
- c. For Banks involved in processing DCs, the knowledge and experience of their trade staff must therefore serve as the first and best line of defence against criminal abuses of these products and services. Reviewing trade documentation is a highly manual process, requiring that the commercial documents that are presented for payment are compared against the terms and conditions of the DC in accordance with the applicable ICC rules for International Standard Banking Practice.
- d. Potentially there are a large number of risk indicators. Against this background it is important to distinguish between:
 - Information which must be validated before transactions are allowed to proceed or complete and which may prevent such completion. (e.g. a terrorist name, sanctioned entity)
 - Information which ought to be used in post event analysis as part of the investigation and suspicious activity reporting process.
- e. Banks should look to put into place systems (either manual or automated) to monitor the risk indicators and their customers' business flows and have processes to review and escalate concerns appropriately.
- f. Appended below is a list of some of the risk indicators which might become apparent in the handling of a DC transaction. This table does not contain the full range of risk indicators which might apply generally across the customer to bank relationship, but is specifically targeted to cover some of the risk indicators related to the processing of a DC transaction. It is also important to note that some risk indicators will only become apparent after the transaction has taken place and will only be known to law enforcement or financial investigation units as part of their formal investigation processes. Banks should derive their own set of risk indicators from their risk assessments.

Some Risk Indicators (not exhaustive)

WHAT: Activity or information connected with the DC	WHEN: Pre or post transaction
Deal structures <ul style="list-style-type: none">• Beyond capacity and or substance of customer• Improbable goods, origins, quantities, destination• Unusual complexity and or unconventional use of financial products	PRE or POST
Goods <ul style="list-style-type: none">• Applicable import or export controls regulations may not be complied with• Blatant anomalies in value versus quantity• Totally out of line with customer's known business	PRE – as part of on boarding CDD
Countries and names <ul style="list-style-type: none">• On the Sanctions or terrorist list	PRE
Countries <ul style="list-style-type: none">• On the Bank's high risk list• Any attempt to disguise or circumvent countries involved in the actual trade	PRE or POST
Payment instructions <ul style="list-style-type: none">• Illogical• Last minute changes	PRE or POST
Repayment arrangements <ul style="list-style-type: none">• Third parties are funding or part funding the DC value (just in time account credits to the settlement account)	POST
DC patterns <ul style="list-style-type: none">• Constantly amended or extended• Routinely cancelled or unutilised	POST
DC Parties <ul style="list-style-type: none">• Connected applicant and beneficiary• Applicant documentation controls payment	PRE or POST
Discrepancies in documents (not necessarily grounds for rejection under UCP600) <ul style="list-style-type: none">• Goods descriptions differ significantly• Especially invoice v shipping doc• Unexplained third parties	PRE or POST
Discrepancies waived <ul style="list-style-type: none">• Advance waivers provided• Absence of required transport documents• Significantly overdrawn DC (tolerance allowed by standard practice)	PRE or POST

Summary of possible controls (as falling within each bank's RBA) described in this guidance on the lifecycle of the DCs

REVIEWING STAGE	WHO OR WHAT IS REVIEWED	AGAINST WHAT	BY WHOM
Account Opening Party X	<ul style="list-style-type: none"> • Party X 	Appropriate due diligence	Bank A
Account Opening Party Y where Party Y is a customer of Bank B	<ul style="list-style-type: none"> • Party Y 	Appropriate due diligence	Bank B
DC Issuing request from Party X	<ul style="list-style-type: none"> • Party X • Party Y and or other named parties • Names & Countries • Goods type • Ports • DC structure • Risk indicators 	Sanctions lists Local applicable export control lists if known AML Checks as per internal procedures.	Bank A
Bank A issues DC to Bank B	<ul style="list-style-type: none"> • Bank B 	Sanctions list	Bank A
Bank B receiving DC from Bank A	<ul style="list-style-type: none"> • Bank A • Party X • Party Y and or other parties • Names & Countries • Goods type • Ports • DC Structure • Risk indicators 	Sanctions lists Local applicable export control lists AML Checks as per internal procedures.	Bank B
DC advising by Bank B to Party Y	<ul style="list-style-type: none"> • Party Y 	1. Appropriate customer risk based controls; 2. Appropriate non-customer risk based controls – (this will vary depending on whether Party Y is a customer of Bank B and the exact capacity of Bank B)	Bank B
Presentation of documents by Party Y to Bank B	<ul style="list-style-type: none"> • Bank A • Party X • Party Y and other parties • Names & Countries • Goods type • Vessel name • Shipping company or carrier or agent • Ports • DC Structure • Risk indicators 	Sanctions lists Local applicable export control lists AML Checks as per internal procedures.	Bank B
Presentation of documents by Bank B to Bank A	<ul style="list-style-type: none"> • Vessel Name • Shipping company or carrier or agent • New named parties or countries not mentioned in DC • Documents • Goods type • Risk indicators 	Sanctions lists AML Checks	Bank A
Payment by Bank A to Bank B	<ul style="list-style-type: none"> • Names on the payment instruction 	Sanctions lists AML Checks	Bank A

Payment by Bank B to Party Y	• Names on the payment instruction	Sanctions lists AML Checks	Bank B
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Appendix II: Bills for Collection

1. Introduction

- 1.1 The Trade Finance Principles Paper sets out the background to Trade Finance as defined in section 1 of the core paper and addresses associated FCRs. The paper also comments on the application of controls in general and makes some observations on the subject of future co-operation between relevant stakeholders.
- 1.2 This appendix provides guidance on the specific application of controls by Banks³⁸ in the context of Bills for Collection (BCs). It is intended to reflect standard industry practice. In order to illustrate these controls fully, the appendix uses a simplified scenario and then describes in some detail the control activities applied by the Banks involved. Where appropriate, any variations on the simplified scenario will be addressed.
- 1.3 The controls fall into the following categories:

- a. **Due Diligence:** To be defined in this paper as
 - the risk based process for identifying and knowing the customer;
 - the risk based controls in relation to parties who may not be customers.

Given the range of meanings, reference will be made as necessary to appropriate risk based checks.

Each bank's established CDD policies should designate which party to a trade transaction is the customer and therefore subject to the bank's due diligence process. It is not the responsibility of any single bank to perform due diligence on all parties to a trade transaction.

Banks should have policies and procedures covering CDD, whereby all customers of the bank, including correspondent banks and non-customer Banks, will be subject to the bank's CDD procedures. Such information should be made available to all the areas handling Trade Finance customers and transactions, to enable them to understand expected activity and identify suspicious activity.

- b. **Review:** Defined as any process (whether manual or automated) to review relevant information available in a transaction relating to the relevant parties involved, documents presented and instructions received. Certain information can, and should, be reviewed and checked before transactions are allowed to proceed.

Reviewing activity as described in this paper, equates to document checking where the documents and their contents are checked for conformity. Appropriate FCR checks should be done based on the information in the documents, transaction details and relevant information from the customer CDD profile. References to "review cycle" relate to the customer CDD review process whereby the relationship as a whole is "reviewed" on an agreed cycle, typically a one to three year cycle dependent upon the bank's risk assessment of the customer.

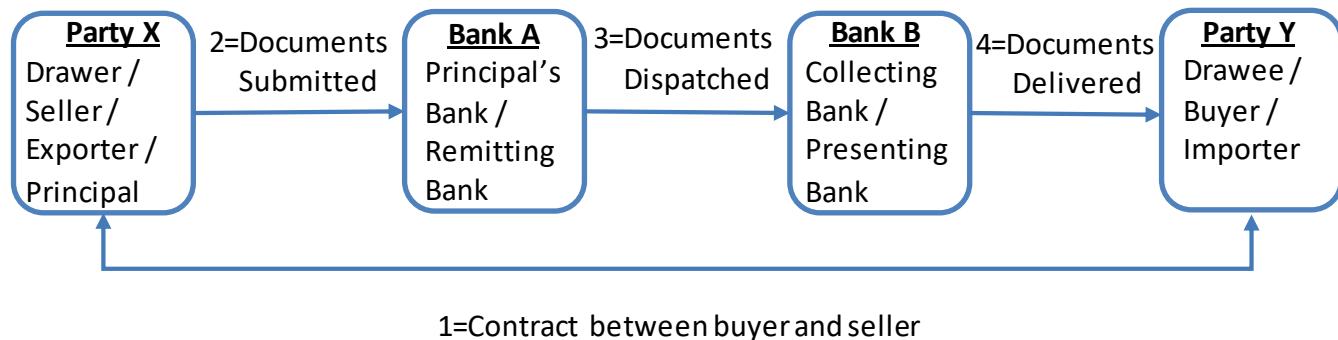
³⁸ Within this appendix, reference to Banks rather than FIs will be used given the need to refer to Banks in an accepted technical context in relation to BCs

- c. **Screening:** Processes, usually automated, whereby lists of names, entities, persons or countries, derived from various official sanctions or prohibited persons lists are used to identify possible fraud, sanctions or other concerns with respect to a relationship or transaction.
- d. **Transaction Monitoring:** Defined as any activity to review completed or in progress transactions for the presence of unusual and potentially suspicious features. For Collections, as with DCs, it should be recognised that it is difficult, if not impossible, to introduce any standard patterning techniques in relation to transactional monitoring processes or systems. This is due to the range of variations which are present even in normal trading patterns. The significant presence of paper documents in this type of trade, and the continuing difficulty of the global trade businesses to fully adopt standardised electronic solutions, will continue to see a need for manual input even in transaction monitoring. While the latest technological developments may give rise to the possibility of automation and pattern based recognition systems, these systems are still under development, are unproven and represent investment requirements that will be attainable only to the larger banks. A summary of control activities is provided in tabular form at the end of this appendix. For further reference, some of the terms used in this guidance are defined in **Section 4: Glossary of Terms**.

- 1.4 It is important to note that with BCs the banks typically operate in accordance with ICC Publication No. 522 – Uniform Rules for Collections.³⁹ The extent of reviewing activity which banks carry out is determined by their responsibilities as defined within these internationally accepted rules. These rules are fundamentally different to the rules governing DCs (refer to Appendix I).

2.

Simplified Scenario – Bills for Collection (BC)



- 2.1 As depicted in the diagram, Party X is selling goods to Party Y. Party X is the customer of Bank A, and Party Y may or may not be a customer of Bank B.
- 2.2 Party X is willing to ship the goods, but does not want the documents, which entitle Party Y to receive the goods, to be released until Party Y has paid for them, or given specified payment undertakings. In this scenario it is assumed that Party X is the customer of Bank A and Party Y is the customer of Bank B.

³⁹ "The Uniform Rules for Collection (1996 Revision), ICC Publication No. 522

2.3 Party X (the seller) instructs Bank A to collect payment in relation to documents drawn on Party Y (the buyer). Bank A selects another bank, Bank B, to present documents for payment to Party Y locally in the other country. The delivery of documents to Party Y by Bank B is typically subject to:

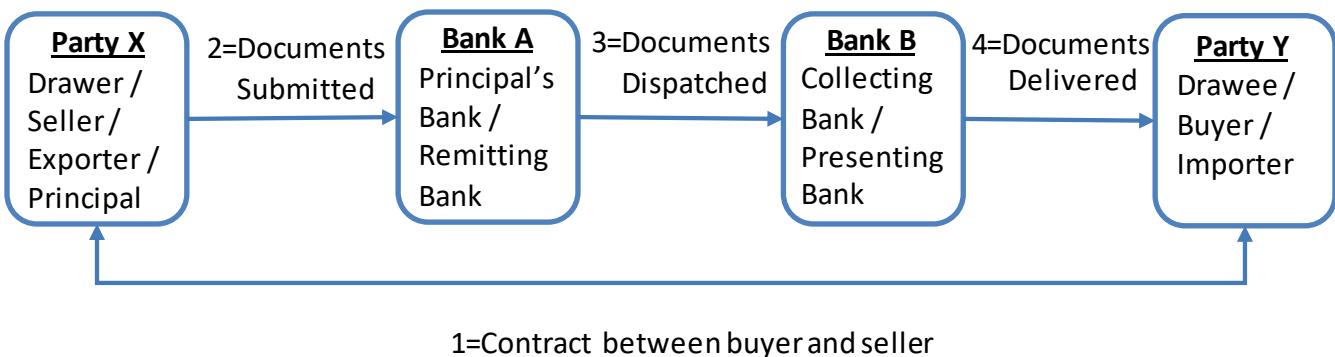
- a. Payment by Party Y to Bank B, or
- b. Acceptance/Issuance by Party Y of a financial document (drafts, promissory notes, cheques or other similar instruments used for obtaining money), agreeing to pay Party X at a specified future date, or
- c. Other stipulated terms and conditions.

2.4 The presentation terms (collection instructions) are determined by Party X and conveyed to Bank A, who in turn, provides the collection instruction to Bank B at the time of presentation of documents for collection. Unless otherwise specifically agreed, neither bank incurs any liability to make payment.

2.5 An overview of the due diligence and reviewing activities is provided in the table at the end of this appendix.

3.

Simplified Scenario – Bills for Collection (BC)



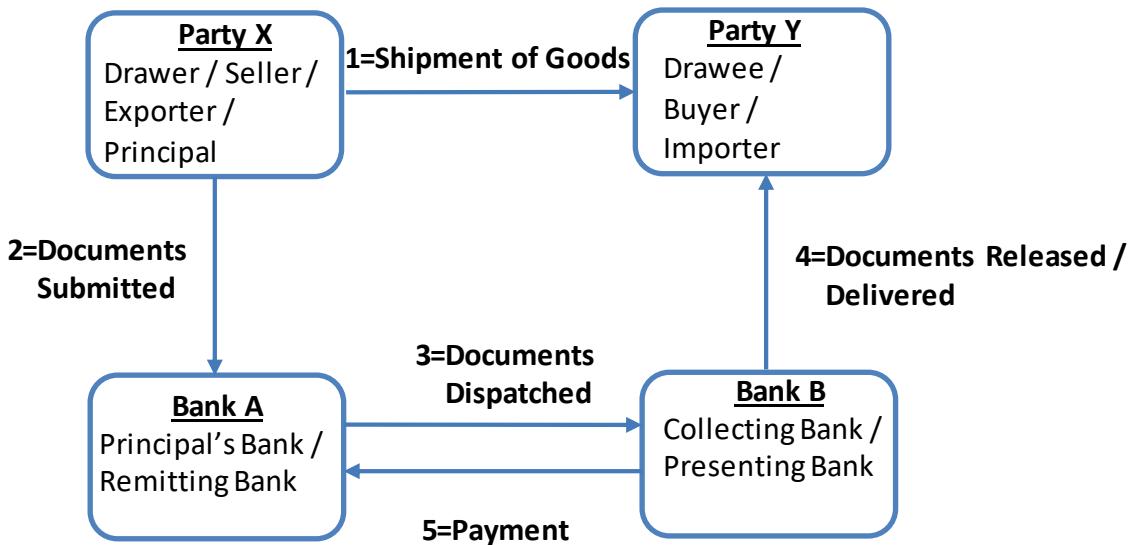
3.1 The banks conduct due diligence, which usually follows the pattern described below:⁴⁰

- a. Bank A will conduct due diligence on Party X (when on boarding and during the account CDD review cycle).
- b. Bank A should conduct appropriate risk based due diligence on Bank B and at review.
- c. Bank B should conduct appropriate risk based due diligence on Bank A and at review.
- d. Bank B will conduct risk based due diligence on Party Y where Party Y is B's customer.
- e. Bank B will conduct appropriate risk based control checks on Party Y where Party Y is not B's customer.

⁴⁰ This information is obtained prior to transactional activity and the data is made available to the processing department during the transactional verification process.

4.

Review Activity Overview - BC



- 4.1 Once the BC is initiated the banks will then review the transaction in accordance with standard banking practice at various stages through to the eventual payment made. This reviewing activity will normally follow the pattern described below:
- a. Bank A will review the BC application from Party X (before agreeing to send the BC).
 - b. Bank B will review the BC as received from Bank A (before informing Party Y).
 - c. Bank B will release the documents to Party Y upon fulfilment by Party Y of the conditions for release of documents as outlined under the BC (see Paragraph 2.3).
 - d. At sight, or maturity, Bank B will collect payment from Party Y and will transfer the funds received to Bank A for further application to Party X.
 - e. Bank A and Bank B will screen the payment (or other) instructions which they receive.

5. Controls undertaken by Bank A

5.1 Party X Due Diligence:

- a. Bank A should conduct appropriate due diligence⁴¹ on Party X (who is a customer of Bank A) prior to handling of the original BC. This is likely to involve a series of standardised procedures for account opening within Bank A. The due diligence will support an on-going relationship with Party X and is not required for each subsequent BC handled.

⁴¹ Identification, verification screening, KYC (and credit approval)

- b. This would be available for use by Trade Finance operations for confirmation that each transaction is in accordance with the CDD profile.
- c. Bank A's due diligence process should include, where BC handling is required, the following questions:
 - The countries in relation to which Party X trades
 - The goods traded
 - The type and nature of parties with whom Party X does business (e.g. customers, suppliers, etc)

Additionally, Bank A can be expected to have a RBA to obtain information on a transactional basis about:

- The role and location of agents and other third parties used by Party X in relation to the business (where this information is provided by Party X)
- d. Having received the answers to these questions, it may be required to conduct enhanced due diligence.

5.2 Enhanced Due Diligence (EDD):

- a. An EDD process should be automatically applied, within the normal process of due diligence, where Party X falls into a higher risk category or where the nature of their trade as disclosed during the standard due diligence process suggests that enhanced due diligence would be prudent (See the FATF 40 Recommendations⁴², Section 10 Guideline H). The enhanced due diligence should be designed to understand the trade cycle and may involve establishing:
 - The countries where Party X trades
 - The goods traded
 - The type and nature of principal parties with whom Party X does business
- b. The nature of business and the anticipated transactions as described and disclosed in the initial due diligence stage may not necessarily suggest a higher risk category, but if this becomes apparent after transactions commence, this may warrant additional due diligence.
- c. Trigger Events:
There may be trigger events during the on boarding stage or during the ongoing review of a relationship or transaction
 - The nature of business and the anticipated or actual transactions as described and disclosed in the initial due diligence stage or during the relationship may not necessarily suggest a higher risk category. However if, during the course of any transaction, any additional high risk factors become apparent, this may warrant additional or enhanced due diligence.
 - This due diligence may include third parties (i.e. parties not associated with Bank A, intermediaries, or traders using back to back or transferable DCs to unconnected other parties).

5.3 Bank B Due Diligence (Collecting Bank/Presenting Bank):

- a. Bank A should undertake appropriate due diligence on Bank B, depending on the nature of the relationship between Bank A and Bank B. The due diligence will support an on-going relationship with Bank B which will be subject to a relevant risk based review cycle. Therefore, due diligence on Bank B for any subsequent transactions is not required.

⁴² FATF 40 Recommendations (2012), <http://www.fatf-gafi.org/publications/fatfrecommendations/documents/fatf-recommendations.html>

- b. See the Wolfsberg Correspondent Banking Standards⁴³ and FAQs for guidance with respect to the level of due diligence to be performed in relation to BankB.

5.4 Reviewing:

a. Stage 1: Reviewing the BC and accompanying documents

Under URC522, the Bank is not required to review the content of the documents; however for the purpose of combating Financial Crime, BankA should proceed to the following reviews:

Appropriate reviews should be conducted by Bank A in relation to the BC request and accompanying documents when received from Party X, which could include the following (depending on the documents received):

- Sanctions and Terrorist lists which may affect:
 - Directly, Party Y as a named target
 - The country in which Party Y is located
 - The goods involved
 - The country where goods are shipped from, disclosed transhipment points, and destination points.
 - All other names appearing in the documents
- The countries which are rated as high risk for other reasons in which:
 - Bank B or Party Y are located
 - The transportation of goods occurs
- The goods described in the transaction to check if:
 - The type and quantity of goods, and value of transactions, (where it is possible to check such details within the RBA of the bank) is consistent with what is known of Party X
- The buyer (Party Y)
 - On the face of it they are the kind of counter-party which is consistent with what is known of Party X's business.
- Risk indicators and Unusual Activity
- Depending on the information arising from this reviewing process Bank A may need to:
 - Make further internal enquiries as to the appropriate course of action
 - Request more information from Party X before agreeing to proceed with the transaction
 - Allow the transaction to proceed to send the BC, but make a record of the circumstances that allowed the transaction to proceed for review purposes
 - Decline the transaction if enquiries do not provide reasonable explanations, and, subject to circumstances and local legal requirements, submit an internal suspicious activity report to the appropriate department that handles FCRs.
 - Depending on circumstances and its RBA Bank A may still decide to submit an internal suspicious activity report to the appropriate department that handles FCRs after the BC was sent out.

⁴³ Wolfsberg Anti-Money Laundering Principles for Correspondent Banking (2014), <http://www.wolfsberg-principles.com/pdf/standards/Wolfsberg-Correspondent-Banking-Principles-2014.pdf>

b. **Stage 2: Making the payment**

When making payment, Bank A will screen the names in the payment instructions, including the names of any banks involved.

5.5 Monitoring:

- a. For Bank A the monitoring opportunities arise from:
 - The normal procedures for monitoring Party X's account and transactional activity
 - Party X's activity observed from business as usual trade processing more generally

5.6 Ongoing Due Diligence by Bank A:

- a. Ongoing review of relationship with Party X on a periodic basis.

6. Controls undertaken by Bank B

6.1 Due Diligence:

- a. It will not normally be practical for Bank B to undertake any due diligence on Party X aside from the reviewing of Party X's name against sanctions or terrorist lists.
- b. Bank B should undertake appropriate due diligence on Bank A. The due diligence may support an ongoing relationship with Bank A which will be subject to a relevant risk based review cycle. Due diligence on Bank A is not therefore required in relation to each subsequent transaction.
- c. If Bank B acts as Collecting Bank, Bank B should have appropriate CDD on Party Y.
- d. See the Wolfsberg Correspondent Banking Standards⁴⁴ for guidance with respect to the level of due diligence to be performed in relation to Bank A.
- e. Bank B may have an existing relationship with Party Y in which appropriate due diligence procedures should already have been completed.
- f. However Bank B may not have any relationship with Party Y because Bank A has selected Bank B for its own reasons (e.g. there is an existing relationship in place between Bank A and Bank B). In this case Bank B will need to undertake certain checks in relation to Party Y as described below.

The following table illustrates the different roles of Bank B and the checks which may be needed in respect of Party Y, in addition to the usual checks as defined in section 6.2 a, Stage 1 below:

Role of Bank B	Checks conducted in relation to Party Y where Y is not B's customer
Collecting bank	Name screening of Party Y and Party X Payment must only be made to Bank A, the Remitting bank (which has been name screened) through an established payment channel.

⁴⁴ Wolfsberg Anti-Money Laundering Principles for Correspondent Banking (2014), <http://www.wolfsberg-principles.com/pdf/standards/Wolfsberg-Correspondent-Banking-Principles-2014.pdf>

	Additional checks on Y and X may be required using a RBA.
Presenting bank	Name screening of Party Y and Party X Payment must only be made to Bank A, the Remitting bank (which has been name screened) through an established payment channel. Additional checks on Y and X may be required using a RBA.

- g. Additional checks in relation to Bank A or Party Y may be appropriate where higher risk factors become evident. This would be the case whether or not there is an existing relationship with Bank B in accordance with Bank B's Risk Based policies.

6.2 Reviewing:

Reviewing may take place principally at 3 stages, i.e. reviewing the BC instruction, reviewing the documents presented, and making the payment. A detailed explanation of potential reviewing activities is set out below:

a. Stage 1: Reviewing the BC Instruction/Covering schedule/Documents

Appropriate reviewing should be conducted by Bank B in relation to the BC when received from Bank A, which will take account of the following:

- Sanctions and Terrorist lists, which may affect:
 - Directly, any Party as a named target
 - The country in which Party X is located
 - The goods involved
 - The country where the goods are shipped from, any disclosed transhipment points and destination points
 - Names appearing in the BC documents
- The countries which are rated as high risk for other reasons in which:
 - Bank A or Party X are located
 - The transportation of goods occurs
- The goods described in the transaction to ensure that:
 - The nature type and value of these goods appears to make sense
- The Seller of the BC (Party X) to ensure that:
 - As a result of any screening activity Bank B would not regard them as unacceptably high risk
- Depending on the information arising from this reviewing process Bank B may need to:
 - Make further internal enquiries as to the appropriate course of action
 - Request more information from Bank A (or Party Y) before agreeing to proceed with the transaction
- Allow the transaction to proceed but make a record of the circumstances for reviewing purposes
- Decline the transaction if enquiries do not provide reasonable explanations, and, subject to circumstances and local legal requirements, submit an internal suspicious activity report to the appropriate department that handles FCRs.

- Depending on circumstances and its RBA Bank A may still decide to submit an internal suspicious activity report to the appropriate department that handles FCRs after the BC was sent out.

Checking of the received documents against any Risk indicators or scenarios that Bank B has determined to apply in its RBA.

b. Stage 2: Making the payment

- When making payment Bank B will review and screen the names in the payment instructions, including the names of any banks involved.

6.3 Monitoring:

For Bank B the monitoring opportunities arise from:

- a. The normal procedures for monitoring the activity relevant to Bank A. This will be dependent upon the systems in place to measure such activity.
- b. Where Party Y is Bank B's customer, the normal procedures for monitoring the account and payment activity.
- c. Where Party Y is not Bank B's customer (unusual), activity observed from business as usual trade processing more generally.

6.4 Limitations faced by Bank B:

- a. Bank B is not the originator of the transaction but is requested to act on instructions received from Bank A (although it is not obliged to do so). In accordance with established practice for handling BCs Bank B will have limited time in which to act upon such instructions. Bank B may then receive supplementary instructions from either Bank A or Party Y.
- b. The level of reviewing and monitoring which Bank B may conduct on Bank A, or Party Y in the absence of an existing and established relationship with any of them, will be subject to a RBA related to the precise capacity in which it is acting. This may be limited to reviewing relevant Party names appearing in the BC against Sanctions and Terrorist lists.

6.5 Risk Indicators Pre and Post Event:

- a. In handling BCs banks do not incur independent undertakings, however in BC the checking of the document will be performed against Trade risk indicators scenarios that Bank B has determined to apply through its RBA. The terms of the BC simply set out the basis on which the seller's documents will be passed on to the buyer. These terms do not set out the information which is required to appear in the seller's documents nor the underlying transportation terms involved. A Bank's position with regard to checking documents is therefore fundamentally different to the position with DCs. A detailed examination of documents attached to a BC is consequently unlikely to be productive due to the absence of any specified terms and conditions against which to check them.

- b. Since the full execution of each BC transaction is a fragmented process involving a number of parties, each with varying degrees of information about the transaction, it is extremely rare for any one Bank to have the opportunity to review an overall trade financing process in complete detail given the premise of the trade business that banks deal only in documents. Furthermore it is relevant to note that:
- Different Banks have varying degrees of systems capabilities which will lead to industry wide differences in their reviewing abilities.
 - Commercial practices and industry standards determine finite timescales in which to act.
 - In determining whether transactions are unusual due to over or under invoicing (or any other circumstances where there is misrepresentation of value) it needs to be understood that Banks are not generally equipped to make this assessment. (Please refer also to paragraph 3.1 (a) of the Principles Paper).
- c. For Banks involved in processing BCs, the knowledge and experience of their trade staff must therefore serve as the first and best line of defence against criminal abuses of these products and services. Reviewing trade documentation is a highly manual process, requiring that the commercial documents that are presented for payment are compared against each other for material differences, that they relate to the transaction described in the covering schedule and the terms and conditions of the BC instructions in accordance with the applicable ICC rules and standard international banking practice.
- d. Potentially there are a large number of risk indicators. Against this background it is important to distinguish between:
- Information which must be validated before transactions are allowed to proceed or complete and which may prevent such completion. (e.g. a terrorist name, UN sanctioned entity).
 - Information which ought to be used in post event analysis as part of the investigation and suspicious activity reporting process.
- e. Banks should look to put into place policies, procedures and systems (either manual or automated) to monitor the risk indicators and their customers' business flows and have processes to review and escalate concerns appropriately.
- f. Appended below is a list of some of the risk indicators which might become apparent in the handling of a BC transaction. This table does not contain the full range of risk indicators which might apply generally across the customer and bank relationship, but is specifically targeted to cover some of the risk indicators related to the processing of a BC transaction. It is also important to note that some risk indicators will only become apparent after the transaction has taken place and will only be known to law enforcement or national financial investigation units as part of their formal investigation processes.

Some Risk Indicators (not exhaustive)

WHAT: Activity or information connected with the BC	WHEN: Pre or post transaction
Deal structures <ul style="list-style-type: none"> • Beyond capacity and or substance of customer • Improbable goods, origins, quantities, destination • Unusual complexity and or unconventional use of financial products 	PRE or POST
Goods <ul style="list-style-type: none"> • Applicable import or export controls regulations may not be complied with • Blatant anomalies value versus quantity • Totally out of line with customer's known business 	PRE – as part of onboarding CDD
Countries and names	PRE

• On the Sanctions and or terrorist list	
Countries	PRE or POST
• On the Bank's high risk list • Any attempt to disguise and or circumvent countries involved in the actual trade	
Payment instructions	PRE or POST
• Illogical • Last minute changes	
Repayment arrangements	POST
• Third parties are funding or part funding the BC value (just in time account credits to the settlement account)	
BC Parties	PRE or POST
• Connected Drawer or Drawee	
Discrepancies in documents	PRE or POST
• Goods descriptions differ significantly	

Summary of controls described in this guidance on the lifecycle of the BCs

REVIEWING STAGE	WHO OR WHAT IS REVIEWED	AGAINST WHAT	BY WHOM
Account Opening Party X	• Party X	Appropriate due diligence	Bank A
Account Opening Party Y where Party Y is a customer of Bank B	• Party Y	Appropriate due diligence	Bank B
BC handling request from Party X	• Party X • Party Y and other named parties • Names and Countries • Goods type • Ports • Risk indicators • Vessel Name	Sanctions lists Local applicable export control lists if known AML Checks as per internal procedures.	Bank A
Bank A Remits Collection to Bank B	• Bank B	Sanctions Lists	Bank A
Bank B receiving BC from Bank A	• Bank A • Party X • Party Y and other parties • Names and Countries • Goods type • Shipping-company • Ports • Vessel name • Risk indicators	Sanctions lists Local applicable export control lists AML Checks as per internal procedures.	Bank B
BC advising by Bank B to Party Y	• Party Y	1. Appropriate customer risk based controls; 2. Appropriate non-customer risk based controls – (this will vary depending on whether Party Y is a customer of Bank B and the exact capacity of Bank B)	Bank B
Bank B as Presenting Bank	• Bank A • Party X • Party Y and other parties • Names & Countries • Goods type • Ports • Vessel name • Risk indicators	Sanctions lists Local applicable export control lists AML Checks as per internal procedures.	Bank B
Payment by Bank B to Bank A	• Names on the payment instruction	Sanctions lists AML Checks	Bank B
Payment by Bank B to Party X	• Names on the payment instruction	Sanctions lists AML Checks	Bank A

Appendix III: Guarantees and Standby Letters of Credit

1. Introduction

- 1.1 The Trade Finance Principles Paper sets out the background to Trade Finance as defined in the introduction of Section 1 of the Core paper and addresses associated FCRs. The paper also comments on the application of controls in general and makes some observations on the subject of future co-operation between relevant stakeholders.
- 1.2 This appendix provides guidance on the specific application of controls by banks⁴⁵ in the context of Guarantees and Standby Letters of Credit ("SBLC"). It is intended to reflect standard industry practice. In order to fully illustrate these controls the appendix uses a simplified scenario and then describes in some detail the control activities applied by the banks involved. Where appropriate, any variations on the simplified scenario will be addressed.

SBLCs and Guarantees are different from Documentary Credits ("DCs"); while a DC is a *performance-related payment instrument* (i.e. once the seller has performed and presents the required documentation, the DC can be drawn upon and payment made), both Guarantees and SBLCs are instruments generally used to secure a compensation payment to the beneficiary only in the case of *non-performance* (i.e. the SBLC or Guarantee may provide compensation to either (a) to a buyer for the seller's failure to provide the contracted goods or services in accordance with specified timelines or other performance measures, or (b) to a seller where the buyer fails to make regular payment under a sales contract).

Under some circumstances, usually unrelated to the movement of goods or services, SBLC's may function as both a payment instrument and as an assurance of payment.

- 1.3 SBLCs are distinguishable from Guarantees, as SBLCs usually only require a simple demand for payment along with a statement of default and are subject to either ISP98 or UCP600, while Guarantees usually subject to URDG 758 more often require a simple demand with a statement of the nature of the default or claim. Use of a Guarantee versus an SBLC may also vary based on local law or prevailing business practice.
- 1.4 Guarantees and SBLCs may be issued in support of the supply of goods or services such as (Performance Bonds, Advance Payment Guarantees, Tender Bonds, Bid Bonds), and those used to secure a purely financial obligation such as (Counter Indemnities, the repayment of credit facilities or the payment of leasing fees). They may be issued in connection with the supply of utilities such as water, power, etc., they are also used in support of bond issues, licences to operate, etc. as part of the contract terms. They may also be issued to support a contract of performance in a third country, different to both the country of the applicant and the beneficiary.
- 1.5 SBLCs and Guarantees can be used in support of many types of financing or other commercial prospects. It should, therefore, be recognised that most SBLCs and Guarantees issued are not related to Trade Finance activities (i.e. are not related to the movement of goods, import and export).
- 1.6 The risk control framework for Guarantees and SBLCs is, however to a certain extent, similar to that applicable to DCs, in that when a Guarantee or SBLC is issued, the risk control framework should generally have elements adequate to identify 1) The nature of the counterparty relationship; 2) The reasonableness of the underlying

⁴⁵ Within this appendix, reference to Banks rather than FIs will be used given the need to refer to Banks in an accepted technical context in relation to Guarantees and Standby Letters of Credit.

transaction, when compared with the business operations of the counterparties; and 3) Whether either the underlying activity or the counterparties to the activity are sanctioned by relevant authorities.

1.7 Differences in the application of such a control framework arise; however, as DC-related risk control frameworks typically contemplate payments as the expected result of the business process whereas, in the context of SBLCs and Guarantees, payments would generally be the exception. Risk controls specific to situations where Guarantees and SBLCs are drawn upon or paid should also address sanctions, expected activity and identify potential suspicious activity.

1.8 The controls fall into the following categories:

a. **Due Diligence:** Defined in this paper as:

- The risk based process for identifying and knowing the customer;
- The risk based controls in relation to parties who may not be customers.

Given the range of meanings, reference will be made as necessary to appropriate risk based checks

Each bank's established CDD policies should designate which party to a trade transaction is the customer and therefore subject to the bank's due diligence process. It is not the responsibility of the bank to perform due diligence on all parties to the trade transaction.

Banks should have risk based policies and procedures covering CDD, whereby all customers of the bank, which includes correspondent banks, will be subject to the bank's CDD processes and procedures. Due diligence information should be made available to all areas handling Trade Finance customers and transactions, to enable them to understand the customer profile including expected activity and identify suspicious activity.⁴⁶

b. **Review:** Defined as any process (whether manual or automated) to review relevant information available in a transaction relating to the relevant parties involved, documents and data presented, and instructions received. Certain information can, and should, be reviewed and checked before transactions are allowed to proceed.

Reviewing activity as described in this paper, equates to document checking where the documents and their contents are checked for conformity. Appropriate FCR checks should be done based on the information in the documents and transaction details and relevant information from the customer CDD profile. References to "review cycle" relate to the customer CDD review process whereby the relationship as a whole is "reviewed" on an agreed cycle typically of one to three years dependent upon the bank's risk assessment of the customer.

c. **Screening:** Processes, usually automated, whereby lists of names, entities, persons or countries, derived from various official sanctions or prohibited persons lists are used to identify possible fraud, sanctions or other concerns with respect to a relationship or transaction.

d. **Transaction Monitoring:** Defined as any activity to review completed or in progress transactions for the presence of unusual and potentially suspicious features. For SBLCs and Guarantee transactions, it should be recognised that it is difficult, if not impossible, to introduce any standard patterning techniques in

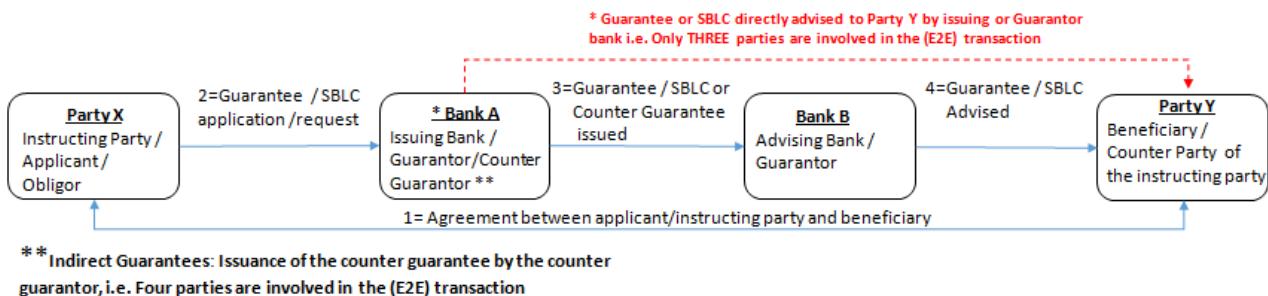
⁴⁶ BAFT Guidance for Identifying Potentially Suspicious Activity in Letters of Credit and Documentary Collections (2015), <https://baft.org/policy/document-library>

relation to transactional monitoring processes or systems. This is due to the range of variations which are present when SBLCs and Guarantees are used in support of construction, design and supply contracts where beneficiaries, nature and size of the transactions will vary significantly, whilst other transactions will be exactly, if not the same and to the same counter parties (lease or rental guarantees for example). While the latest technological developments may give rise to the possibility of automation and pattern based recognition systems, these systems are still under development, are unproven and represent investment requirements that will be attainable only to the larger banks. Controls which apply (i.e. Due Diligence, Reviewing, Screening and Monitoring) are largely the same as defined in the Appendix relating to DCs. A summary of control activities is provided in tabular form at the end of this appendix. For further reference some of the terms used in this guidance are defined in **Section 4: Glossary of Terms**.

- 1.9 It is important to note that with SBLCs the banks operate in accordance with ICC Publication No. 600 – Uniform Customs and Practice for Documentary Credits, or Publication 590 – International Standby Practices ISP98. Guarantees may follow the ICC Uniform Rules for Demand Guarantees ICC Publication 758 or otherwise simply be subject to a national law and regulations. The extent of reviewing activity which banks carry out is determined by their responsibilities as defined within these internationally accepted rules. ISP98 and URDG758 are different from UCP600. SBLCs are often issued subject to the UCP, which was designed primarily for DCs, and as a result exclusions and variations of its rules are often used.

2. Simplified Scenario

Simplified Scenario – Guarantees / SBLC

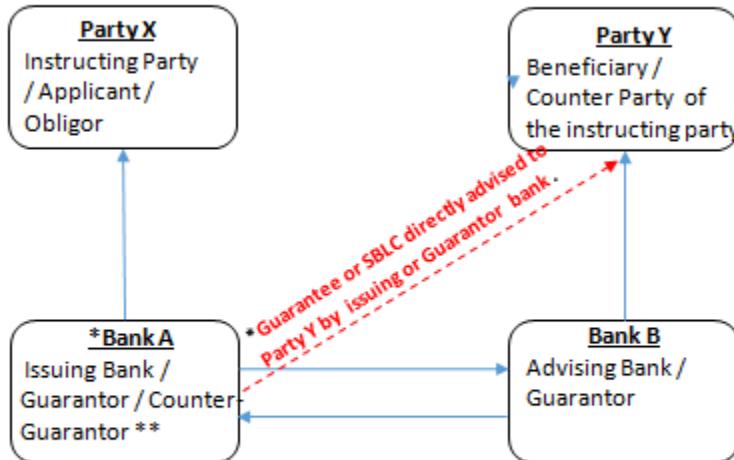


- 2.1 As depicted in the diagram, Party X is supplying goods or services to one of their buyers, Party Y. Party X is the customer of Bank A, and Party Y may or may not be a customer of Bank B.
- 2.2 Prior to shipping the goods, Party Y wants to know that they will be paid damages should the shipment not be made, so Party Y requests that a SBLC or guarantee be issued in its favour and advised through Party Y's bank, Bank B, with payment to be made only against the receipt of stipulated documents, related to the non-shipment of goods, by Party X's Bank, BankA.
- 2.3 Party X instructs Bank A to issue a SBLC in favour of the buyer, Party Y.
- 2.4 Bank A selects Bank B (its correspondent bank or Party Y's nominated bank) to advise the SBLC or guarantee to Party Y locally, often in another country. After the presentation of claim documents by Party Y through Bank B, and having found the claim documents to be in order by Bank A, Bank A will pay under the SBLC.
- 2.5 In the second simplified scenario, the guarantee or SBLC is delivered by Bank A directly to Party Y. Therefore Bank A will only carry out the appropriate due diligence on Party X. Bank A will conduct appropriate risk based control checks on Party Y where Party Y is not A's customer.

2.6 An overview of the due diligence and reviewing activities is provided in the tables at section 3 of this appendix.

3. Due Diligence Overview

Due Diligence Overview – Guarantees / SBLC



**** Indirect Guarantees:** Issuance of the counter guarantee by the counter guarantor i.e. Four parties are involved in the (E2E) transaction

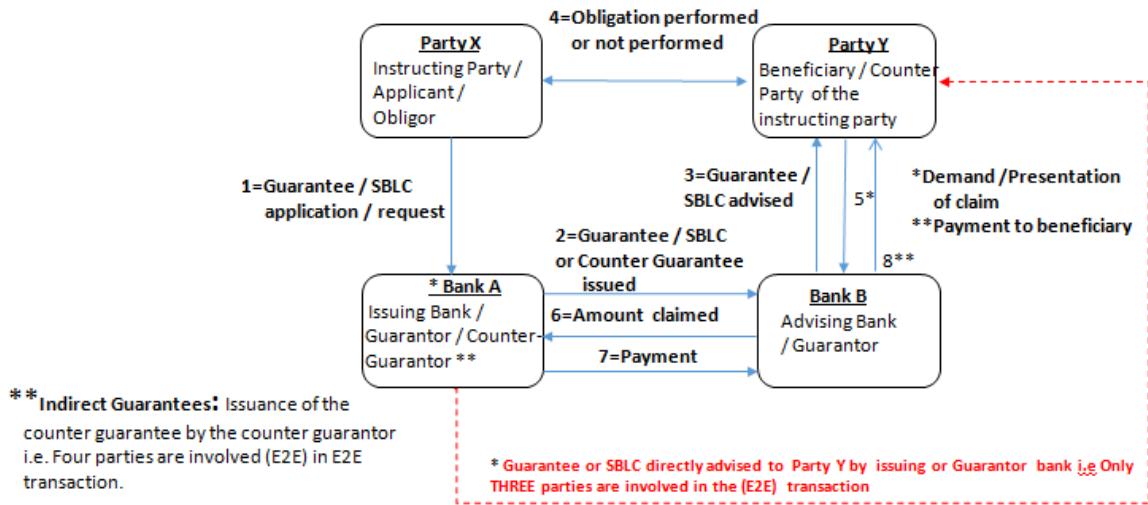
3.1 The banks conduct due diligence which usually follows the pattern described below during onboarding:⁴⁷

- a. Bank A will conduct due diligence on Party X (when on boarding and during the account CDD review cycle).
- b. Bank A should conduct appropriate risk based due diligence on Bank B and at CDD review.
- c. Bank B should conduct appropriate risk based due diligence on Bank A and at CDD review.
- d. Bank B will conduct risk based due diligence on Party Y where Party Y is B's customer.
- e. Bank B will conduct appropriate risk based control checks on Party Y where Party Y is not B's customer.
- f. In the second simplified scenario, the guarantee or SBLC is delivered by Bank A directly to Party Y. Therefore Bank A will only carry out the appropriate due diligence on Party X. Bank A will conduct appropriate risk based control checks on Party Y where Party Y is not A's customer.

⁴⁷ This information is obtained prior to transactional activity and the data is made available to the processing department during the transactional verification process.

4. Reviewing Activity Overview

Review Activity Overview – Guarantees / SBLC



- 4.1 Once the SBLC or Guarantee is initiated by Party X, the banks will, in the normal course of SBLC or Guarantee practice, review the transaction at various stages through to the eventual payment where made. This reviewing activity will normally follow the pattern described below:
- Bank A will review the SBLC or Guarantee application from Party X (before agreeing to issue SBLC or Guarantee).
 - Bank B will review the SBLC or Guarantee as issued when received from Bank A (before agreeing to advise it).
 - Bank B may review the claim documents presented by Party Y (when accepting them under the SBLC or Guarantee from Party Y) applying a RBA depending upon its precise role.
 - Bank A will review the claim documents presented by Bank B (before paying B - who will in turn pay Party Y).
 - Bank A and Bank B will review the payment (or other) instructions which they receive.
 - In the second scenario Bank A will review the claim documents presented by Party Y before paying Party Y via the bank nominated by Party Y to receive payment.

5. Controls undertaken by Bank A

- 5.1 **Party X Due Diligence:** Bank A should conduct appropriate due diligence⁴⁸ on Party X (who is a customer of Bank A) prior to issuance of the original guarantee or SBLC. This is likely to involve a series of standardised procedures for account opening within Bank A. The due diligence will support an on-going relationship with Party X and is not required for each subsequent SBLC applied for. In the second simplified scenario, the

⁴⁸ Identification, verification screening, KYC (and credit approval)

guarantee or SBLC is delivered by Bank A directly to Party Y. Bank A will only carry out the appropriate due diligence on Party X. Bank A will conduct appropriate risk based control checks on Party Y where Party Y is not A's customer.

- a. This would be available for use by Trade Finance operations and/or guarantees operations for confirmation that each transaction is in accordance with the CDD profile.
- Bank A's due diligence process should include, where SBLC or guarantee facilities are required, the following questions:
 - The countries in relation to which Party X trades
 - The goods or services traded
 - The type and nature of parties with whom Party X does business (e.g. customers, suppliers, etc)

Additionally, Bank A can be expected to have a RBA to obtain information on a transactional basis about:

- The role and location of agents and other third parties used by Party X in relation to the transaction (only where this information is provided by Party X) and these checks will primarily be related to sanctions screening.
- b. Having received the answers to these questions, it may be required to conduct enhanced due diligence in accordance with the FI's procedures.

5.2 Enhanced Due Diligence:

- a. An enhanced due diligence process, in line with a bank's RBA, should be applied, within the normal process of due diligence, where Party X falls into a higher risk category, or where the nature of their transaction, as disclosed during the standard due diligence process, suggests that enhanced due diligence would be prudent (See the FATF 40 Recommendations⁴⁹, Section 10 Guideline H). The enhanced due diligence should be designed to understand the trade cycle and may involve establishing:
 - The countries where Party X trades
 - The goods traded and/or service provided
 - The type and nature of principal parties with whom Party X does business. This does not imply that a counterparty CDD is required
- b. The nature of business and the anticipated transactions as described and disclosed in the initial due diligence stage may not necessarily suggest a higher risk category, but if this becomes apparent after transactions commence, this may warrant additional due diligence.

5.3 Bank B Due Diligence:

- a. Bank A should undertake appropriate due diligence on Bank B, depending on the nature of the relationship between Bank A and Bank B (i.e. Correspondent or Network Bank). The due diligence will support an ongoing relationship with Bank B which will be subject to a relevant risk based review cycle. Therefore, due diligence on Bank B for any subsequent transactions is not required.

⁴⁹ FATF 40 Recommendations (2012), <http://www.fatf-gafi.org/publications/fatfrecommendations/documents/fatf-recommendations.html>

- b. See the Wolfsberg Correspondent Banking Standards⁵⁰ and FAQs for guidance with respect to the level of due diligence to be performed in relation to Bank B.

5.4 Reviewing:

- a. Reviewing will occur at initiation and during the life cycle of the transaction, principally at the following stages:
 - i. Receiving the initial SBLC or guarantee application and subsequent amendment applications from Party X
 - ii. Only in the event of a claim being made, receiving and checking documents presented by Party Y through Bank B
 - iii. Making payment
- b. In practice, once a SBLC or guarantee has been issued, Bank A has an obligation to complete the transaction. Only if subsequent reviewing activity showed a “positive match” of applicable names in the transactions with the names on Sanctions and Terrorist lists, would Bank A be in a position to stop the transaction. Depending on the local legislation there may be circumstances where fraud would allow Bank A to refuse payment under other circumstances (non-sanctions). This would be determined on a case by case basis in conjunction with the FIs Legal team.
- c. When the claim is presented to the guaranteeing bank, either Bank A or Bank B, the claim and supporting documents, if any, will be examined to ensure compliance with the terms of the SBLC or guarantee and that it is in accordance with the UCP, ISP 98 or URDG758 and international banking standards⁵¹ as applicable. Depending on the bank’s RBA, this review does not need to involve a detailed examination of all the information in the claim.

Stage 1: Reviewing the SBLC or Guarantee request or application

For guidance in respect of what is reviewed, by when and by who in a SBLC or guarantee transaction see the table under “Summary of controls described in this guidance on SBLCs and Guarantees” at the end of this appendix.

Stage 2: Making the payment

When making payment Bank A will screen the names in the payment instructions, including the names of any banks involved

5.5 Monitoring:

For Bank A monitoring opportunities arise from:

- The normal procedures for monitoring Party X’s account and transactional activity
- Party X’s activity observed from business as usual trade processing more generally

5.6 Ongoing Due Diligence by Bank A:

⁵⁰ Wolfsberg Anti-Money Laundering Principles for Correspondent Banking (2014), <http://www.wolfsberg-principles.com/pdf/standards/Wolfsberg-Correspondent-Banking-Principles-2014.pdf>

⁵¹ The relevant ICC Rules for DCs are “The Uniform Customs and Practice ISP 98, URDG 758

- a. Bank A will rely heavily on the initial and ongoing due diligence conducted on Party X. It will not be practical or commercially viable for Bank A to continually seek detailed additional assurances from Party X as every new transaction is received for processing because that would a) hamper the efficiency of processing and b) undermine the element of trust which is normal in the relationship between Bank A and Party X.
- b. There should be ongoing reviews of the relationship on a periodic basis.

6. Controls undertaken by Bank B (only if advising or counter guaranteeing)

- 6.1 The due diligence, reviewing and monitoring undertaken by Bank B will follow a similar pattern to that set out in the Appendix on DCs.
- 6.2 Any differences in relation to Guarantees and SBLCs may arise as a result of the following:
 - a. Any reference to goods may not apply.
 - b. The likelihood of any claim for payment is much reduced.
 - c. The legal jurisdictions which apply are more likely to be specified.

7. Risk Indicators, Pre and Post Event

- 7.1 SBLCs or Guarantees are independent undertakings issued by a bank on behalf of its customer to support a business or financial transaction between the bank's customer (the applicant) and the counterparty (the beneficiary). Contract terms will be agreed between applicant and beneficiary. Details of the required SBLC or Guarantee are then communicated by the applicant to his bank so that the SBLC or Guarantee can be issued. The terms of each SBLC or Guarantee reflect a unique combination of factors involving the specific nature of the underlying transaction, the nature of the business relationship between the counterparties to the transaction, the nature and terms of the financing arrangement, and the nature of the relationship between the financial institutions party to the financing and payment arrangements.
- 7.2 While the full execution of each SBLC or Guarantee transaction is a process involving a number of parties, with full information available to the commercial parties and the issuer, it is rare for the advising, reissuing, counter guaranteeing Banks to have the same level of detail about the transaction. Furthermore it is relevant to note that:
 - a. Different Banks have varying degrees of systems capabilities which will lead to industry wide differences in their reviewing capabilities.
 - b. Commercial practices and industry standards determine finite timescales in which to act.
- 7.3 For Banks involved in processing SBLCs and Guarantees, the knowledge and experience of their operations staff must serve as the first and best line of defence against criminal abuses of these products and services. Reviewing SBLC or Guarantee claims is a mostly manual process, requiring that the claim and any supporting documents that may be presented for payment are compared against the terms and conditions of the SBLC or Guarantee and, where applicable, any ICC rules and international standard banking practice.

- 7.4 Potentially there are a large number of risk indicators. Against this background it is important to distinguish between:
- Information which must be validated before transactions are allowed to proceed or complete and which may prevent such completion. (e.g. a terrorist name, sanctioned entity).
 - Information which ought to be used in post event analysis as part of the investigation and Suspicious Activity Reporting process.

- 7.5 Appended below is a list of some of the risk indicators which might become apparent in the handling of an SBLC or Guarantee transaction. This table does not contain the full range of risk indicators which might apply across the customer and bank relationship, but is specifically targeted to cover some of the risk indicators related to the processing of an SBLC or Guarantee transaction. It is also important to note that some risk indicators will only become apparent after the transaction has taken place and will only be known to law enforcement or financial investigation units as part of their formal investigation processes. FIs will determine their own set of risk indicators based upon their policies and risk appetite.

Some Risk Indicators

WHAT: Activity or information connected with the SBLC/Guarantee	WHEN: Pre or post transaction
Deal structures <ul style="list-style-type: none"> Beyond capacity and or substance of customer Unusual complexity and or unconventional use of financial products 	PRE or POST
Goods (if any) <ul style="list-style-type: none"> Applicable import or export controls regulations may not be complied with Totally out of line with customers known business 	PRE or POST
Countries and names <ul style="list-style-type: none"> On the sanctions and terrorist list 	PRE
Countries <ul style="list-style-type: none"> On the Bank's high risk list Any attempt to disguise and or circumvent countries involved in the actual trade 	PRE or POST
Claims and Payment instructions <ul style="list-style-type: none"> Last minute changes to payment instructions Claims made within a short time after issuance Continuous claims under various guarantee instruments. Claim pressure tactics 	PRE or POST

Summary of controls described in this guidance on SBLCs/Guarantees

REVIEWING STAGE	WHO OR WHAT IS REVIEWED	AGAINST WHAT	BY WHOM
Account Opening Party X Account opening Party Y where Party Y is a customer of Bank B	<ul style="list-style-type: none"> • Party X • Party Y 	Appropriate due diligence	Bank A Bank B
SBLC or Guarantee Issuing request from Party X	<ul style="list-style-type: none"> • Party X • Party Y and other principal parties • Names and Countries • Goods type (if any) • AML Checks • Ports • SBLC or Guarantee structure • Risk indicators 	Sanctions lists Local applicable export control lists if known AML Checks as per internal procedures.	Bank A
Bank A delivers SBLC or Guarantee to Party Y	<ul style="list-style-type: none"> • Party Y 	Sanctions lists Appropriate Risk Based control checks.	Bank A
Bank A issues SBLC or Guarantee to Bank B	<ul style="list-style-type: none"> • Bank B 	Appropriate due diligence	Bank A
Bank B receiving SBLC or Guarantee from Bank A	<ul style="list-style-type: none"> • Bank A • Party X • Party Y and other parties • Names and Countries • Goods type (if any) • Ports • SBLC or Guarantee structure • Risk indicators 	Appropriate due diligence Sanctions lists Local applicable export control lists if known AML Checks as per internal procedures.	Bank B
SBLC or Guarantee advising by Bank B to Party Y	<ul style="list-style-type: none"> • Party Y 	Appropriate due diligence – (this will vary depending on whether Party Y is a customer of Bank B and the exact capacity of Bank B)	Bank B
Presentation of claim documents by Party Y to Bank B or Bank A	<ul style="list-style-type: none"> • New principal parties or countries not mentioned in SBLC/Guarantee 	Sanctions lists AML checks	Bank B or Bank A if presentation is direct
Presentation of claim documents by Bank B to Bank A	<ul style="list-style-type: none"> • New principal parties or countries not mentioned in SBLC/Guarantee 	Sanctions lists AML checks	Bank A
Payment by Bank A to Bank B or to Party Y's bank	<ul style="list-style-type: none"> • Names on the payment instruction 	Sanctions lists AML checks	Bank A
Payment by Bank B to Party Y	<ul style="list-style-type: none"> • Names on the payment instruction 	Sanctions lists AML checks	Bank B

8. Counter Guarantees and Counter Standby Letters of Credit.

8.1 For AML purposes counter guarantees and SBLCs are treated in the same way as if they are an original or new issuance. The reissuing bank for a SBLC or the Bank receiving the counter guarantee and issuing its own guarantee locally treats the original issuing bank as the applicant (instructing party) and full CDD is required on them.

As a result, the above procedures apply to the counter guarantee or SBLC.

Appendix IV: Open Account

1. Introduction

- 1.1 The Trade Finance Principles Paper sets out the background to Trade Finance and addresses associated FCRs. The paper also comments on the application of controls in general and makes some observations on the subject of future co-operation between relevant stakeholders.
- 1.2 This appendix provides guidance on the specific application of controls by Banks⁵² in the context of Open Account Trade transactions; and specifically elaborates on Receivables Purchase techniques as defined by the Global Supply Chain Finance Forum.⁵³
- 1.3 Open Account Trade involves the movement of goods or services between two companies, either domestically or internationally, based on mutual trust in which the seller may extend payment and/or credit terms. Third-party intermediation to provide processing services, performance risk mitigation or payment financing is not deemed to be required as part of the transaction because of the relationship between the two parties. Open Account Trade is viewed as an efficient way to handle trade-related payments, as it does not incur the costs and delays involved with Bank-provided financing or risk mitigation services.
- 1.4 In a typical Open Account transaction, the seller and the buyer contract for the delivery of stated goods from the seller to a place designated by the buyer. The type of contract and its terms and conditions will depend on the relationship between the buyer and seller; usually one party drives the standard terms and method of payment.
- 1.5 Participants to an Open Account Trade transaction generally finance the transaction out of their own cash flow or through other arrangements. Banks may be indirectly involved in the financing of the trade transaction and therefore will have limited information as to the specifics of the trade transaction.
- 1.6 As a result, Banks are generally not involved in an Open Account Trade transaction until a clean payment is made at the end (which could be after the goods have been delivered). The seller and buyer will generally not provide the Banks handling the Open Account payment with supporting documentation, reducing the information available to Banks to assess and review. The clean payment triggered by an Open Account trade transaction will be subject to standard payment services controls.
- 1.7 Banks may support Open Account trade transactions with Supply Chain Finance (SCF) techniques in order to allow a buyer or a seller to optimise their working capital or payment terms according to their individual needs. In this context, Receivable Purchase techniques (specifically Receivables Discounting and Payables Finance) play an important role.

The Global Supply Chain Finance Forum⁵⁴ defines SCF as ‘the use of financing and risk mitigation practices and techniques to optimise the management of the working capital and liquidity invested in supply chain processes and transactions’, and ‘is typically applied to open account trade’.⁵⁵

⁵² Within this appendix, reference to Banks rather than FIs will be used given the need to refer to Banks in an accepted technical context in relation to Open Account trade

⁵³ Reference is made to the ‘Standard definitions for techniques of Supply Chain Finance’ (<http://supplychainfinanceforum.org/>)

⁵⁴ The Global Supply Chain Finance Forum was established in January 2014, as an initiative of these industry associations, to address what has been recognised as a need to develop, publish and champion a set of commonly agreed standard market definitions for Supply Chain Finance and for SCF-related techniques. (<http://supplychainfinanceforum.org/about-the-forum/>)

⁵⁵ Standard definitions for techniques of Supply Chain Finance, p. 24

1.8 Receivables Purchase based SCF techniques usually involve both parties of a trade relationship, raising a need to apply FCR management. Depending on the level of involvement and the underlying contractual relationships, such FCR management measures may vary in order to ensure that a Bank has an efficient and appropriate view on its customers and their counterparties, as determined by its risk appetite.

This Appendix provides guidance on the specific application of controls by Banks for Receivables Purchase based SCF techniques. Within the category of Receivables Purchase, this Appendix specifically focuses on Receivables Discounting and Payables Finance.

1.9 The controls fall into the following categories:

a. **Due Diligence:** Defined in this paper as:

- i. the risk based process for identifying and knowing the customer;
- ii. the risk based controls in relation to parties that may not be customers.

Given the range of meanings, reference will be made as necessary to appropriate risk based controls.

Banks should have risk-based policies and procedures covering CDD, whereby all customers of the Bank will be subject to the Bank's CDD procedures. Due diligence information should be made available to all areas handling Trade Finance customers and transactions, to enable them to understand the customer profile (including expected activity) and identify potentially suspicious activity.

Each Bank's established policies should designate which party to a trade transaction is the customer and therefore subject to the Bank's due diligence process. In the instance of Payables Finance, the buyer (and likewise, the seller in a Receivables Discounting program) is designated as the customer and should be subjected to the Bank's CDD process. A Bank may undertake certain controls on other parties to the trade transaction depending on its RBA. It is not the responsibility of the Bank to perform due diligence on all parties to a trade transaction. (Refer to Section 2.1 of the Trade Finance Principles, Core Paper)

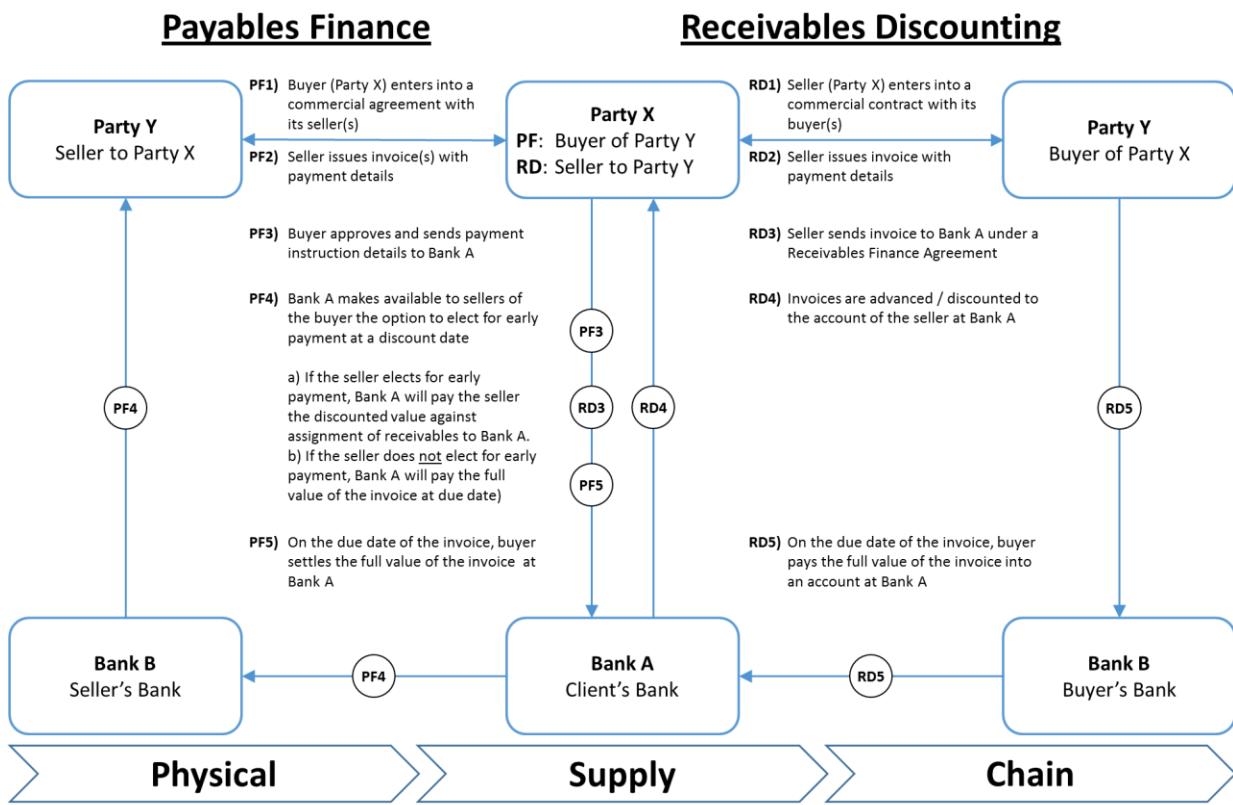
- b. **Screening:** Processes, usually automated, whereby lists of names, entities, persons or countries, derived from various official sanctions or prohibited persons lists are used to identify possible fraud, sanctions or other concerns with respect to a relationship or transaction.
- c. **Transaction Monitoring:** Defined as any activity to review completed or in progress transactions for the presence of unusual or potentially suspicious features. For Receivables Purchase based techniques, it should be recognised that any patterning techniques in relation to transaction monitoring processes or systems will highly depend on the level of automation of the infrastructure that is used. Transaction Monitoring may take the form of automated controls, 'red flag' based manual controls, or a mix of both and will be commensurate to the risk and / or size of the Bank.

It is important to note that with SCF techniques, Banks typically apply CDD at the outset of each business relationship. This includes a customer adoption of the anchor party and its business relationships with its counterparties, providing appropriate insight into the customer's business and hence the trade pattern that can be expected.

In that respect, Supply Chain Finance may offer more opportunities for systematic transaction monitoring, depending on the level of automation that is applied. A summary of control activities is provided at the end of this appendix. For further reference, some of the terms used in this guidance are defined in **Section 4: Glossary of Terms**.

2 Definition

Receivables Purchase techniques under Supply Chain Finance is provided through a customer-led programme within which either the customer itself or its counterparties in the customer's supply chain are able to access finance by means of selling their Receivables to a Bank. Receivables Purchase techniques provide a seller of goods or services with the option of receiving the discounted value of receivables (represented by outstanding invoices) prior to their actual due date. Typical programme-based Receivables Purchase techniques are Payables Finance and Receivables Discounting. A customer may act as buyer, seller, or both depending on its position in the physical supply chain and its individual financial requirements.⁵⁶



SCF Payables Finance and Receivables Discounting – holistic view

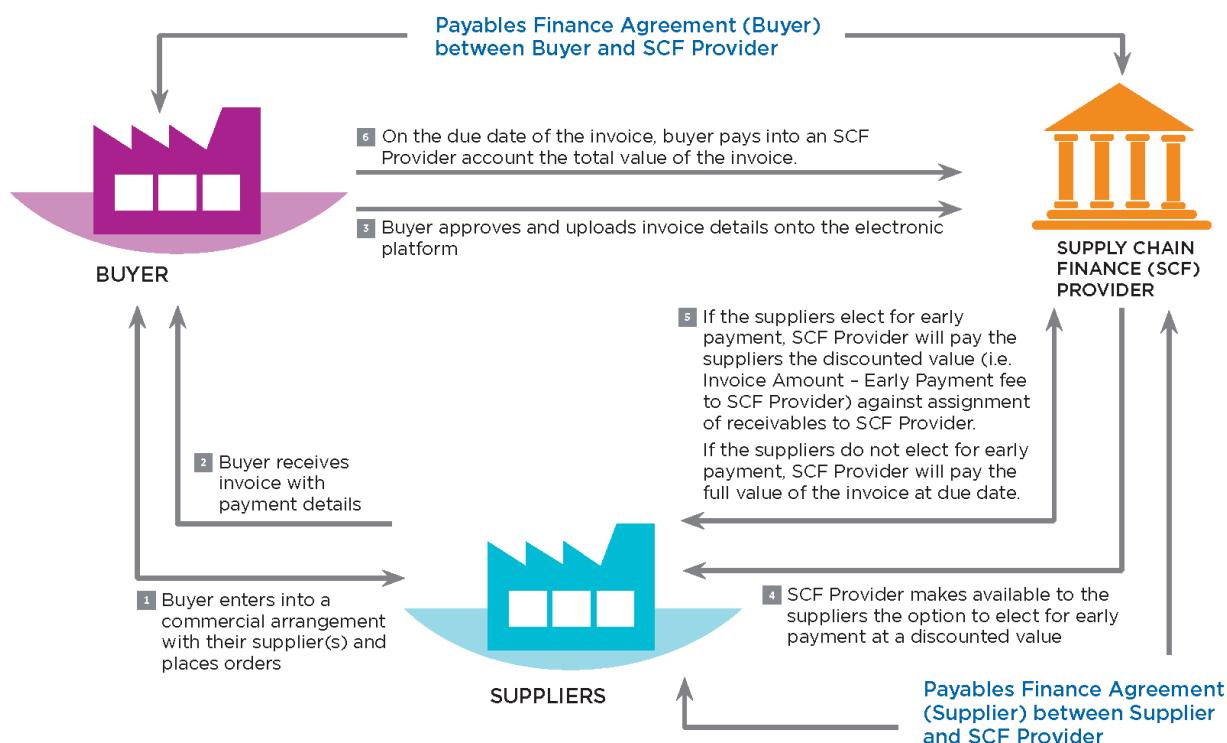
⁵⁶ Reference is made to the Standard Definitions for techniques of Supply Chain Finance, sections 3.4.1 (Receivables Discounting) and 3.4.5 (Payables Finance)

2.1 Distinctive features Payables Finance:

The buyer identifies an invoice(s) or account(s) payable (on its books) for which it has given an unconditional, irrevocable commitment to pay,⁵⁷ and the seller has the option to sell the receivable(s) (i.e. the counterpart of the buyer's payable on its own books) and receive an early, discounted payment from the Bank. The technique is 'buyer-centric' in that the buyer will typically arrange a payables finance programme with one or more Banks in favour of its sellers.

As seen in the diagram, the buyer encourages its sellers to consider the use of this Payables Finance programme; the sellers make an independent decision to utilise the programme.

The Bank relies on the creditworthiness of the buyer and typically grants the financing 'without recourse' to the seller. Such 'without recourse' relates to the credit risk or risk of non-payment by the buyer of the invoice or account payable. It is common that certain elements of recourse are retained against the seller, such as relates to breaches of representations and warranties. The buyer will pay the principal amount owed at the invoice maturity/due date or at another agreed upon due date directly to the Bank. If there are any dilutions between the buyer and seller, it would be resolved outside of this Payables Finance structure.



SCF Payables Finance (as described in the SCF Standard Definitions)

⁵⁷ a.k.a. independent payment undertaking (IPU)

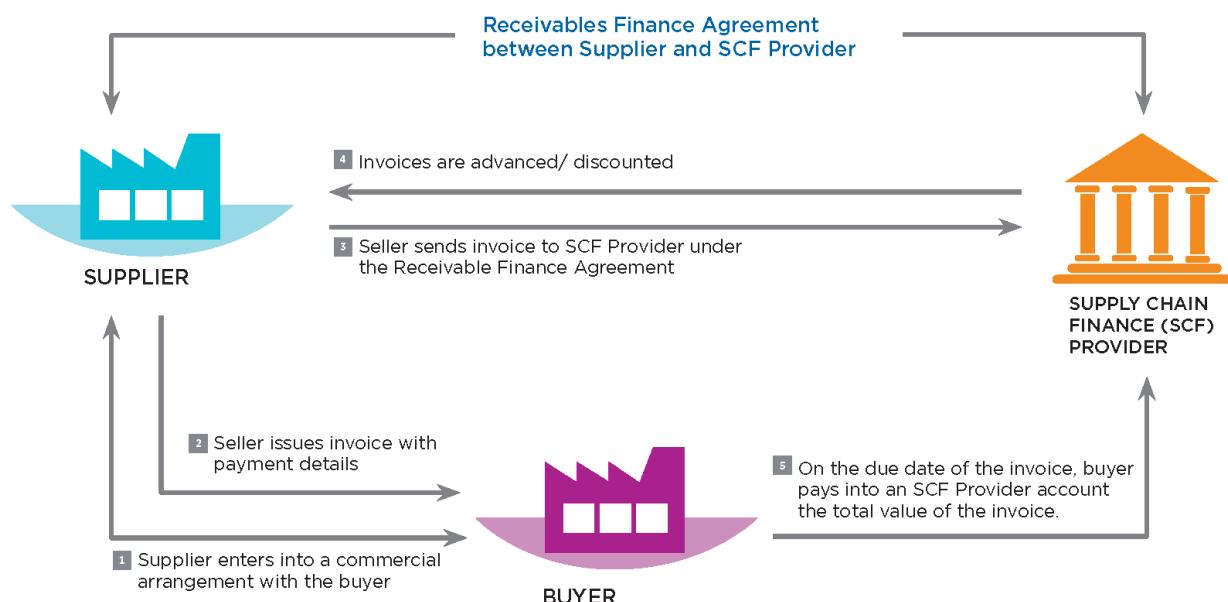
2.2 Distinctive features Receivables Discounting:

Discounted receivables range from a single receivable through to the majority of the receivables within the sales ledger of a seller. The funds available to the seller are based on the outstanding value of the invoices related to the relevant buyers.

Receivables Discounting is usually offered by finance providers to customers selling to multiple buyers. The buyer coverage will depend on the number of buyers for which the finance provider is willing to take credit risk.

The finance provider offers finance based on a security margin applied to the open account receivables being assigned by the seller and as pre-agreed between the seller and the Bank.

Typically, the Bank will limit such offering to a customer base, whose receivables comply with certain criteria, such as a minimum credit rating.

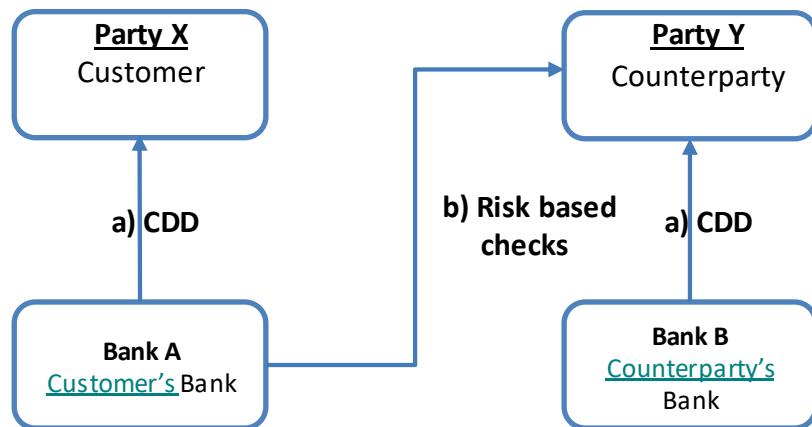


SCF Receivables Discounting (as described in the SCF Standard Definitions)

3 Due Diligence Overview – Receivables Purchase

3.1 Bank A conducts due diligence, which usually follows the pattern described below:⁵⁸

Initial Due Diligence



Customer and counterparty checks

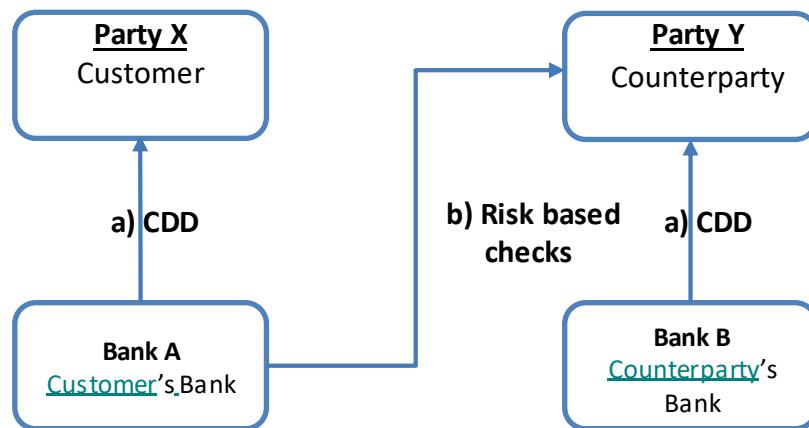
- a. Bank A and Bank B will conduct Customer Due Diligence on their customers (when onboarding and during the account CDD review cycle)
- b. Bank A will conduct appropriate Risk based checks on the counterparty on an RBA unless the counterparty is a customer of the Bank, in which case a) would apply

⁵⁸ This information is obtained prior to transactional activity and the data is made available to the processing department.

4 Review Activity – Receivables Purchase

4.1 Once the Receivables Purchase programme is set up, Bank A will, in the normal course of business review the programme from a customer and counterparty perspective. This reviewing activity will normally follow the pattern described below:

Due Diligence – Review Activity



Customer and Counterparty periodic or event-driven reviews

- a. Bank A and B will review CDD on their customers
- b. Bank A will review appropriate Risk based checks on the counterparty on a RBA unless Party Y is also a customer of the Bank, in which case a) would apply

5 Controls undertaken by Bank A

5.1 Party Due Diligence

- a. Bank A should conduct due diligence⁵⁹ as appropriate on Party X (that is a customer of Bank A) prior to the setup of a Receivables Purchase programme. This is likely to involve a series of standardised procedures for customer adoption within Bank A. The due diligence will support an on-going relationship with Party X and is not required for each subsequent programme that is set up with this customer.
- b. Bank A's RBA, its due diligence process may include, amongst others, the following information:
 - The countries in relation to which Party X buys and sells
 - The goods traded
 - The counterparties with whom Party X does business (buyers, sellers).

A counterparty in the context of a Receivables Purchase program is typically created when there is a request from the customer of Bank A to support its own business or the business of the customer's trading partner. Bank A has no other relationship with that third party. Such counterparties do not have an account, a facility or a dedicated Relationship Manager at Bank A, and they also do not give any instructions to Bank A. They are sponsored by a global line of business, and interactions with Bank A are limited to the scope of the Receivables Purchase program. The

⁵⁹ Identification, verification screening, CDD (and credit approval)

relationship with these counterparties is based on a successful CDD on Party X and the trust of Bank A in the commercial relationships Party X enters into for the purpose of its own business.

Typical examples of counterparties under a Receivables Purchase program may include, but are not limited to:

- Buyers of Party X of Bank A under a Receivables Discounting program that is arranged by Bank A for Party X and its buyers (= Party Y)
- Sellers of Party X of Bank A under a Payables Finance program that is arranged by Bank A for Party X and its sellers (= Party Y)

Minimum Risk based checks for non-customer relationships

It is generally recommended to perform risk based checks on counterparties. The extent of such checks may vary depending on the particular SCF technique that is applied and additional aspects such as the state of disclosure against the counterparty or whether a programme is whole turnover or not.⁶⁰ The risk based checks may include the following:

- Collect counterparty name and address information (counterparty name at a minimum)
- Conduct sanctions screening against relevant sanctions list(s), as appropriate
- Conduct a review against internal ‘red flag’ lists. In this context, ‘red flag’ lists refer to lists that Banks may maintain to manage or monitor transactions / relationships with particular entities or persons. These are generally based on a variety of factors including, but not limited to, prior unusual transaction history and negative media reports.
- Evaluate risks of the potential relationship to the counterparty based on the above information to identify whether a Bank may require further review based on internal risk tolerance.

Based on this information, it may be required to conduct additional checks.

5.2 Additional checks:

- a. An enhanced due diligence process should be applied, within the normal process of due diligence, where Party X falls into a higher risk category or where the nature of its trade, as disclosed during the standard due diligence process, suggests that enhanced due diligence would be prudent (See the FATF 40 Recommendations,⁶¹ Section 10 Guideline H).
- b. An additional due diligence process should be designed to ensure clear understanding of the trade cycle, to gain assurances regarding customers’ compliance systems (which could include but are not limited to cross border controls and licencing regulations) and to ensure understanding of payment flows.
- c. Trigger Events:
There may be trigger events during the on boarding stage, during the ongoing review of a relationship or during the transaction process.

The nature of business and the anticipated or actual transactions as described and disclosed in the initial due diligence stage or during the relationship may not necessarily suggest a higher risk category. However

⁶⁰ For Receivables Discounting, the risk based check may include the buyer name, however not always other information such as the address.

⁶¹ FATF 40 Recommendations (2012), http://www.fatf-gafi.org/publications_fatfrecommendations/documents/fatf-recommendations.html

if, during the course of the Receivables Purchase programme, any additional risk factors become apparent, this may warrant additional or enhanced checks for Party X or Party Y.

5.3 Bank B Due Diligence

Bank B is not involved in the Receivables Purchase Transaction except for receiving and crediting funds for Party Y, or – in the case of a Receivables Discounting program – executing payment instructions of Party Y to Party X (or to Bank A, depending on the specific design of the Receivables Discounting programme). Consequently, Bank B is not subject to Due Diligence in the context of a Receivables Purchase program.

5.4 Reviewing transactional information

In practice, once a Receivables Purchase programme has been set up, Bank A processes the payment instructions or invoice data received from Party X. If subsequent review or screening activity shows a positive match, Bank A may stop the programme or a particular transaction. Depending on local law, there may be circumstances where fraud would also allow the transaction to be stopped.

Reviewing and screening will occur when the customer presents its payables or receivables information to Bank A. The information (presented on a manual basis or electronically) will be subject to the programme eligibility control. This control will typically ensure the transactions match with the scope Bank A had initially agreed with Party X for the Receivables Purchase programme, e.g. the transaction currency, the amount, the beneficiary or buyer and the due date of the transaction.

Unless local regulatory requirements apply, Party X will present no further information. A local regulator may require further checks or presentation of information, e.g. for purposes of import/export controls

5.5 Monitoring

For Bank A monitoring opportunities arise from:

- The normal procedures for monitoring Party X's account and the usage of the Receivables Purchase programme
- Party Y's activity observed from business with Bank A in the context of the Receivables Purchase programme

5.6 Ongoing Due Diligence by Bank A

- a. Bank A will heavily rely on the initial and ongoing due diligence conducted on Party X. It will not be required for Bank A to seek continuous additional assurances from Party X as every new transaction is received for processing, since it will be subject to the regular transaction monitoring activities of Bank A.
- b. There should be ongoing reviews of the relationship on a periodic basis. Bank A may conduct ad hoc controls following the below grid:

Scope	<ul style="list-style-type: none">• Selected customers (Party X), using a Risk Based Approach• Ongoing sanction screening• if material issues are noted, selected counterparties (Party Y)• ongoing transaction monitoring
-------	---

Frequency	<ul style="list-style-type: none"> customer due diligence on a periodic basis and based on critical trigger events or internal ad hoc controls Increased frequency for higher risk customers based on Bank A's policies
Responsibility	<ul style="list-style-type: none"> A dedicated team of Bank A taking ownership and responsibility for ad hoc controls Support from internal functions of Bank A, e.g. Credit Risk, Customer Coverage and Financial Crime Teams

6 Controls undertaken by Bank B

Bank B is not involved in a Receivables Purchase programme that Bank A has arranged. Controls undertaken by Bank B are limited to standard controls on incoming or outgoing payments for Party Y.

6.1 Due Diligence:

- Bank B has an existing relationship with Party Y. Appropriate due diligence should already have been completed.
- Bank B will not undertake any due diligence on Party X aside from the screening of Party X's name against sanctions and terrorist lists for incoming payments from any party involved in the program⁶².

7 Risk Indicators, Pre- and Post Event

7.1 A Receivables Purchase Program is an undertaking arranged by a Bank for its customer to support business transactions between the Bank's customer and its counterparties, independent of the underlying trade transactions. Contract terms will be agreed between the customer and its counterparties and then be communicated to the Bank in the context of the arrangement of the Receivables Purchase Program. The terms of a Receivables Purchase program reflect a unique combination of factors involving:

- the specific nature of the Receivables Purchase programme,
- the underlying commercial relationships between Party X and Party Y,
- the nature of the relationship between Bank A and Party X as well as Party Y.

where Party X and Party Y would refer to customer and counterparty accordingly depending on the type of programme.

7.2 In Receivables Purchase business, Banks deal in documents representing receivables information, or rather sets of data, representing such documents. Since the execution of each transaction under a Receivables Purchase program is a rather automated and integrated process within a pre-agreed scope of parameters it is rare for Bank A to review individual transactions in complete detail. Furthermore it is relevant to note that:

- Both parties of a Receivables Purchase program are subject to initial and ongoing controls, ensuring that transactions meet the criteria that had been agreed at the outset of a Receivables Purchase programme
- Commercial practices and industry standards determine finite timescales in which to act

⁶² Under a Payables Finance programme arranged by Bank A, Bank A will appear as the payer for the majority of incoming payments. Only for non-financed transactions, Party X will appear as the payer. Depending on whether a Receivables Discounting program is set up undisclosed or disclosed (and Bank A acting as a collection agent), the beneficiary of a payment from Bank B may vary between Party X (if undisclosed) and Bank A (disclosed).

- Different Banks have varying degrees of systems capabilities which will lead to differences in their reviewing abilities

7.3 Potentially there are risk indicators that may be looked at in the context of a Receivables Purchase programme. Against this background it is important to distinguish between:

- Information which must be validated before a Receivables Purchase programme is set up and which may prevent such set up (e.g. a sanctioned entity or a terrorist name)
- Transactional controls, e.g. sanction screening
- Information which ought to be used in a post event analysis as part of the investigation and suspicious activity reporting process

7.4 Banks should look to put into place internal procedures (either manual or automated) to identify and monitor the risk indicators at all stages and have processes to review and escalate concerns appropriately.

7.5 Appended below is a list of some of the risk indicators which might become apparent in the handling of a Receivables Purchase programme. This table does not contain the full range of risk indicators which might apply generally across the customer to Bank relationship, but is specifically targeted to cover some of the risk indicators related to the processing of a Receivables Purchase programme. It is also important to note that some risk indicators will only become apparent after the transaction has taken place and will only be known to law enforcement or financial investigation units as part of their formal investigation processes. Banks should derive their own set of risk indicators from their risk assessments.

WHAT: Activity or information connected with the SCF program	WHEN: Pre or post transaction
Deal structures <ul style="list-style-type: none"> • Beyond capacity and or substance of customer • Improbable goods, quantities, origins, destination • Applicable import or export controls regulations may not be complied with • Countries / Names on the Bank's high risk, Sanctions or terrorist list • Any attempt to disguise or circumvent countries involved in the actual trade • Unusual complexity and or unconventional use of financial products • Evasive behaviour of Party X or Party Y when being on-boarded • Or a combination of the above 	PRE
Deal structures <ul style="list-style-type: none"> • Party X or Y changes its name, legal entity structure, accounting standards, country of incorporation or operation, or Bank relationship • New regions, currencies, Parties (X or Y) added after the initial setup • Or a combination of the above 	POST
Transactions <ul style="list-style-type: none"> • Blatant anomalies or changes in value or volume of the transactions processed against the agreed / expected or historic value or volume • Changes in financing behaviour of Party X or Party Y • Changes in settlement behaviour of the buyer • Failed or returned payments to sellers (under a Payables Finance program) • Or a combination of the above 	POST

Appendix V: FI Trade Loans

1. Introduction

1.1 The Trade Finance Principles Paper sets out the background to Trade Finance as defined in Section 1 of the core paper and addresses associated financial crime risks. The paper also comments on the application of controls in general and makes some observations on the subject of future co-operation between relevant stakeholders.

1.2 This appendix provides guidance on the application of controls by banks⁶³ in the context of Financial Institutions Trade Loans “FITL”, also called Bank-to-Bank Trade Loans. It is intended to reflect standard industry practice. In order to illustrate these controls fully, the appendix uses a simplified scenario and then describes in some detail the control activities applied by the banks involved.

1.3 FITL is direct or indirect short-term financing on an uncommitted basis by a Bank (Lender) to another Bank (Borrower) to fund clearly defined trade transactions undertaken by these Bank customers for their corporate customers against the purchase and sale obligations of these customers. FITL is for bank to bank risk, has a short tenor, but the underlying transactions are always trade-related. They may be provided to facilitate either a single transaction or a pool of trade transactions.

1.4 The Lender will have satisfied itself, based on documentary evidence or otherwise, that the financing will be used to fund trade transactions. Depending on the Lender’s Risk Based Approach (RBA), the proof of the underlying trade transaction may include shipping documents or other information that demonstrates the financing to be consistent with the underlying trade transaction(s). These transactions can involve either domestic or cross-border trades.

1.5 The Lender (Bank A, as referred to in Paragraph 2 below) is not directly or immediately involved in the trade transaction. It is the Borrower, that undertakes the trade transaction(s) and the parties involved in the underlying transactions are unlikely to have a relationship with Bank A. Nevertheless, it is necessary for the Lender to apply a minimum level of controls to the transactions underpinning the financing request, to address possible sanctions or other financial crime risks. It should be noted in this context, that, sanctions may be applied differently from jurisdiction to jurisdiction. A transaction that is perfectly acceptable in the jurisdictional context of one bank could be prohibited under the sanctions regime applicable to another.

1.6 This appendix should be considered together with the Wolfsberg Group Anti Money Laundering Principles for Correspondent Banking,⁶⁴ which provide due diligence guidance on the transacting parties to practice effective risk management and exercise sound judgement.

1.7 Applying the Wolfsberg Group Anti Money Laundering Principles for Correspondent Banking and the Wolfsberg Due Diligence Questionnaire⁶⁵, banks should develop their own RBA for FI customers with specific regard to the risk control framework customers have in place for their trade finance activities. The risk profile of individual Borrowers and Lender’s RBA, together with other considerations such as credit worthiness, should decide what type of FI Trade loans, and for which amount, a Lender is prepared to grant to the respective Borrower.

⁶³ Within this appendix, reference to Banks rather than FIs will be used given the need to refer to Banks in an accepted technical context in relation to Guarantees and Standby Letters of Credit.

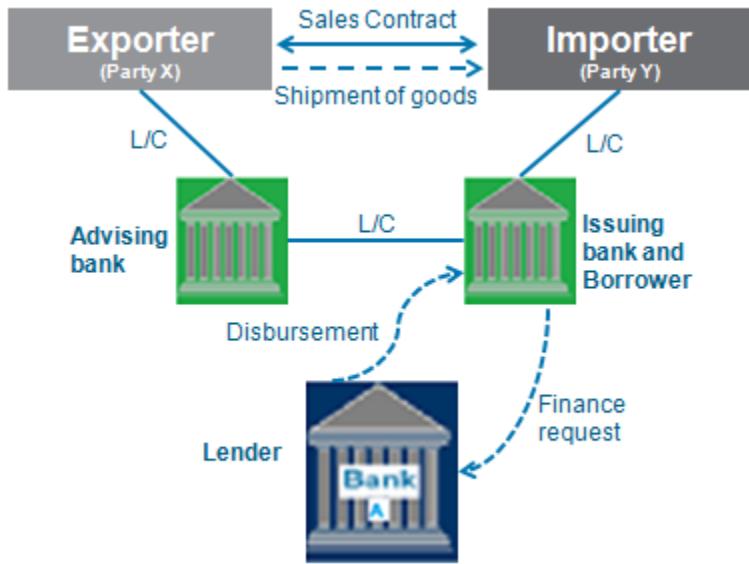
⁶⁴ [Wolfsberg Anti-Money Laundering Principles for Correspondent Banking \(2014\)](#)

⁶⁵ [Wolfsberg Group Correspondent Banking Due Diligence Questionnaire](#) (2018)

1.8 The additional controls for FITL from the Lender's perspective are

- a. **Screening:** Processes, usually automated, whereby lists of names, entities, persons or geographic locations derived from various official sanctions or prohibited persons lists are used to identify possible sanctions or other concerns with respect to a relationship or transaction.
- b. **Monitoring:** Any activity to review the underlying transactions for the presence of unusual or potentially suspicious activity.

2. Simplified scenario



2.1 Given that FITL is essentially a finance request on an uncommitted basis from a bank customer, the underlying transaction can be of any type of trade finance activity. The majority of FITL transactions seen by banks are usually related to Documentary Credit type transactions and therefore the assumption of L/C as the underlying transaction has been taken for this simplified scenario. The process flow of the underlying trade finance activity displayed in the simplified scenario above is similar to the simplified scenario in the Documentary Credits Appendix I of the Trade Finance Principles, however with the addition of a Lender granting the FI Trade Loan.

2.2 In this example, the Borrower has a contingent asset in its books in the form of a Documentary Credit issued on behalf of one of its customers. The borrower wishes to obtain a bank loan against this asset. The reasons for such financing can vary, but generally, loans marked as trade have a better Product Recovery Rate (PRR) than standard loans, which positively impacts their risk weighting for balance sheet purposes. Hence, the Issuing Bank/Borrower and the Lender have arranged for the Lender to grant a loan to the Borrower in the amount of the letter of credit.

2.3 Bank A disburses the loan upon request of the Borrower, usually when payment by the Issuing Bank/Borrower is due under the letter of credit, but in practice can be at any moment as long as it is done before the repayment of the obligation by the Importer as per the terms of the Documentary Credit used in this example. In all cases, an FI Trade Loan's terms should match the terms of the trade asset(s) it is based on.

2.4 The trade finance activities giving rise to the FI trade loan could include documentary credits, bills for collection and/or various open account trade products.

2.5 An overview of the due diligence and control activities is provided below.

3. Controls undertaken by Lender

- 3.1 **Borrower Due Diligence:** The Lender should conduct appropriate due diligence⁶⁶ prior to offering financing. The due diligence will support an on-going relationship with the Borrower and would not require additional due diligence for each subsequent request for financing. The due diligence must be subject to a regular risk based review cycle. See the Wolfsberg Correspondent Banking Standards⁶⁷ and FAQs, as well as FATF 40 Recommendations,⁶⁸ Section 10 Guideline H, for guidance with respect to the level of due diligence to be performed
- 3.2 The Borrower initiates a financing request via SWIFT message or other means to Lender. In many cases, this message is the extent of information banks will receive to trigger financing and process payment
- 3.3 **Reviewing:** Reviewing occurs once a request for financing is made. The request for financing is linked to the life cycle of the underlying trade finance transaction. Banks should establish a requirement for minimum information from Borrower on the underlying trade finance transaction before any loan is made. Unless the nature of the underlying product precludes the information being available at that time (pre-shipment financing) or at all (domestic financing or services) the details should include:
- Name of Borrower
 - Address of Borrower
 - Name of Buyer
 - Address of Buyer
 - Name of Seller
 - Address of Seller
 - Port of Loading
 - Port of Discharge
 - Shipment date
 - Description of Goods
 - Vessel name
 - Purchase order number/ LC number/ Contract number/ Invoice number

Reviewing of the data could include Sanctions screening, AML, or other financial crime checks, depending on the Bank's RBA.

As part of the controls in place, and in accordance with their RBA, the Lender may also request actual or copy documents relating to the underlying trade transaction(s). If subsequent reviewing activity of this identifies unusual or potentially suspicious behaviour, or a positive screening match, the Lender may stop the payment to the Borrower, but will not necessarily be able to impact the underlying trade finance transaction.

Upon repayment of the FI Trade loan by the Borrower, the incoming funds will once again be screened by the Lender as required under the Bank's screening program. A Sanction risk exists at this point if any movement of the goods has taken place after the initial financing was provided, and that movement involved a sanctioned entity or country. The screening may reveal this sanctioned link, thus, depending on the sanctions regime

⁶⁶ Identification, verification, screening, KYC (and credit approval)

⁶⁷ Wolfsberg Anti-Money Laundering Principles for Correspondent Banking (2014)

⁶⁸ Financial Action Task Force ("FATF") 40 Recommendations (2012)

applicable to the Lender, requiring the Lender to either block or return the funds that now have become tainted.

3.4 Ongoing Due Diligence: Banks rely heavily on the initial and ongoing due diligence conducted by their Bank customers. It is not practical or commercially viable for Banks to seek detailed additional assurances from Bank customers, whether continuously or for every single transaction, because that would a) hamper the efficiency of processing and b) undermine the element of trust which is normal in the relationship between Banks and their Bank customers. This stresses the importance of ongoing reviews of the relationship on a periodic basis.



Investing in the Middle Class

BUDGET 2019

Tabled in the House of Commons
by the Honourable
William Francis Morneau, P.C., M.P.
Minister of Finance

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INTRODUCTION

Nearly four years ago, Canadians helped us build a plan for real change.

It was a plan that would invest in the things that matter most: good, well-paying jobs for the middle class and people working hard to join it; more help for families struggling with the high cost of living; strong, connected communities; and better opportunities for our children and grandchildren.

Canadians chose to invest in their future. And in the years since, those investments have begun to pay off.

This year, a typical middle class family of four will receive, on average, about \$2,000 more in support than they did in 2015, thanks to the middle class tax cut and the Canada Child Benefit.

Under the Government's economic plan, Canadians have created over 900,000 new jobs—the vast majority of which have been full-time—driving the unemployment rate to its lowest levels in more than 40 years. The number of Canadians working (as a share of the working-age population) also reached a record high in 2018. This includes especially strong employment gains by women, with the pace of job gains for women more than doubling since November 2015, compared to the previous three-year period.

Not only are there more jobs, but wages have also increased, rising in 2018 at one of the fastest paces of growth seen in the past eight years.

With lower taxes, more money to save or spend each month, and more good jobs, there are many reasons for middle class Canadians to feel more confident about what the future holds for themselves, and their families.

In 2019, however, there persists a sense among some Canadians that the promise of progress—the idea that with hard work, everyone can build a better life—may no longer hold true. Much more needs to be done to make sure all Canadians feel confident and secure about their future.

Facing an Uncertain Future

Too many Canadians are worried about making ends meet.

High housing costs, mounting household debt, a rapidly changing job market, and the steady erosion of things that used to offer a sense of security—like employer-sponsored pension plans—are adding to the sense of uncertainty.

Many Canadians still feel that they are working harder than ever, but not getting any further ahead.

They feel uncertain about the future for different reasons.

Some young people are worried about their ability to find and keep good jobs, and frustrated that even with a college or university degree, they might not have the skills that employers need. Some of them may want to build a future in the rural areas they grew up in, but have concerns about finding jobs in their field or that suit their skill sets.

For some parents, it's the rising cost of living, saving for their kids' education and their own retirement, and taking care of aging parents that may weigh most heavily.

Workers of all ages may wonder if their jobs are secure, or worry about how they'll get the skills needed to find new or better opportunities down the road.

And some seniors, who have earned a secure and dignified retirement after a lifetime of work, may be concerned about whether they have enough savings to support themselves through their retirement.

Across the country, Canadians of all backgrounds want to be assured that the Government is doing all it can to make sure that the promise of progress endures—creating new jobs and more opportunities; and building a country where more housing is affordable, where climate change is taken seriously, where new Canadians are welcomed and supported, and where reconciliation with Indigenous Peoples continues to move forward.

These concerns—and these hopes for a better future for their children and grandchildren—are real. Canadians deserve a Government that not only listens to these concerns, but has in place a plan to address them. One that will help to make life more affordable and help more people succeed in a rapidly changing world. One that is grounded in evidence and carried out in a responsible and balanced way.

While it is clear that there is much more work to be done, the Government's efforts to build an economy that works for everyone have delivered promising results.

Results for the Middle Class

Since 2015, the Government has focused on strengthening and growing the middle class, and offering real help to people working hard to join it. Its ambitious plan to invest in the middle class has delivered:

A middle class tax cut for over 9 million Canadians.

Canadians. As one of its first orders of business, the Government raised taxes on the wealthiest 1 per cent, and cut taxes for the middle class. As a result, single Canadians who benefit are now saving an average of \$330 each year, and couples who benefit are saving an average of \$540 each year.

The tax-free Canada Child Benefit. With the Canada Child Benefit, 9 out of 10 families receive more help than they did under previous child benefit programs. This year, on average, families benefitting from the Canada Child Benefit will receive around \$6,800 to help with the high cost of raising kids—an amount that will continue to rise with the cost of living.

These two measures alone mean that a typical family of four is \$2,000 better off this year—and every year—than they were four years ago.

More affordable post-secondary education.

More generous support through the Canada Student Loans Program means that, in the 2017-18 school year, over 490,000 Canadian post-secondary students received \$1.4 billion from all types of Canada Student Grant support. This represents a 34 per cent increase in Canada Student Grant recipients and a 90 per cent increase in total Canada Student Grant amounts since 2014-15, for Canadian post-secondary students to invest in their future success.

Better support for working Canadians. The Canada Workers Benefit will help low-income workers take home more money while they work—up to nearly \$500 more for a worker earning \$15,000 in 2019—encouraging more people to join and remain in the workforce, and offering real help to more than 2 million Canadians who are working hard to join the middle class.

More money for vulnerable seniors today. Increasing the Guaranteed Income Supplement (GIS) top-up payment by up to \$947 per year for single seniors boosted benefits for nearly 900,000 low-income seniors, while restoring the eligibility age for Old Age Security and GIS benefits to 65 means thousands of dollars more for Canadians as they become seniors.

Canada: Lowest Effective Personal Tax Rate in the Group of Seven (G7)

Once the tax-free **Canada Child Benefit** is added to family income, a typical Canadian two-income couple with two children now keeps nearly 85 per cent of their gross income. **That's the lowest effective rate of taxation in the G7.**

For single-parent households earning the average wage with two kids, or for families with two kids where only one parent is working at the average wage, the benefits are even greater—they pay effective personal tax rates of less than 2 per cent. In other words, these families **keep more than 98 per cent of what they earn.**

A more secure and dignified retirement for all Canadians. The enhancement of the Canada Pension Plan will give Canadian workers greater income security when they retire—including benefits that rise with the cost of living—while helping to fill the gap left by declining workplace pension coverage.

Stronger, more resilient communities. Investing in communities can deliver good, middle class jobs today, while setting the stage for economic, social and environmental returns for years to come. To date, the Government has approved more than 33,000 infrastructure projects in communities across the country—with the vast majority already underway. More than \$7 billion of the \$19.9 billion committed to projects has been fully invested in projects like new highways, bridges, buses, water treatment plants and community centres.

More affordable places to call home. New, long-term investments in the National Housing Strategy will build 100,000 new units of affordable housing, and help cut chronic homelessness in half. Since Budget 2016, almost \$2 billion in new federal funding has been invested in housing across Canada and over 303,500 units have been built or repaired, giving Canadians greater access to affordable housing. These incremental investments have already provided more stable housing to 9,000 Canadians who were homeless or at serious risk of homelessness.

Fewer Canadians living in poverty. Thanks, in part, to a number of investments such as the income-boosting effects of the Canada Child Benefit and the increase to the top-up to the Guaranteed Income Supplement for single seniors, the Government has achieved its targeted 20 per cent reduction of poverty three years ahead of time, lifting over 825,000 Canadians out of poverty in 2017, including 278,000 children, compared to 2015.

A path toward reconciliation with Indigenous Peoples. Historic investments are helping to secure a better quality of life for Indigenous Peoples—lifting more than 80 long-term drinking water advisories, supporting the construction or repair of over 14,000 homes on reserve, and supporting more than 75 active Recognition of Rights and Self-Determination tables representing over 400 communities—while laying the foundation for a renewed relationship with First Nations, Inuit and the Métis Nation based on the recognition of rights, respect, cooperation and partnership.

An ambitious and affordable plan to fight climate change. With the Government's new Climate Action Incentive payments, most households living in provinces that do not meet the Canada-wide federal standard for reducing carbon pollution—Ontario, New Brunswick, Manitoba and Saskatchewan—will get back more money than their increased costs resulting from the federal carbon pollution pricing system.

A Long-Term Plan for Canadians

The positive results realized since 2015 have not happened by accident, and will not continue without sustained effort.

Supported by investments in the middle class, it is the hard work of Canadians that is creating good, well-paying jobs, growing the economy, and helping to make life more affordable for people across the country.

Those investments and that hard work are what will continue to keep the economy strong and growing for the long term.

The alternative—making aggressive cuts to the services Canadians rely on to eliminate the deficit faster—will not help the economy, and it will not help Canadians. Canadians understand that a country cannot cut its way to prosperity.

That's why the Government has instead chosen to move forward with a plan that continues to invest to grow Canada's economy for the long term, in a fiscally responsible way that preserves Canada's low-debt advantage for current and future generations.

It's a plan that is delivering real results for the middle class and people working hard to join it.

It's a plan that, step by step, is helping to build an economy that works for everyone, where every person has a real and fair chance at success.

It's a long-term plan for Canadians that respects the choice Canadians made in 2015, and that will continue to deliver results for people—helping to create good, well-paying jobs and building strong, connected communities we can all be proud to call home.

Investing in the Middle Class

Since 2015, hard-working Canadians have proven what has long been understood: that a strong economy starts with a strong middle class.

Investing in the middle class means more help for people who need it. It means better opportunities for people today, and the promise of a better future—even in a world filled with change.

Budget 2019 is the next step in the Government's plan to keep Canada's economy strong and growing. It recognizes Canadians' concerns and takes their needs to heart.

With this Budget, the Government is:

- **Investing in the Middle Class**—To help more families find good places to live, Budget 2019 introduces the new First-Time Home Buyer Incentive and other measures to make housing more affordable across the country. With the new Canada Training Benefit, working Canadians will have the extra help they need to find and keep good jobs today—and tomorrow. And all Canadians will be healthier and better off with the steps Budget 2019 takes toward implementing national pharmacare.
- **Building a Better Canada**—To keep our economy strong and growing, Budget 2019 invests in the infrastructure Canadians—and Canadian communities—need. Doubling the transfer to municipalities will help get more projects underway, creating more good, well-paying jobs and making our cities and towns better places to live. More affordable electricity bills, new support for zero-emission vehicles, and a new commitment to bring high-speed internet to every Canadian home and business are all part of building a better country.
- **Advancing Reconciliation**—Building on the progress achieved to date, the distinctions-based investments in Budget 2019 will help deliver clean water and better health care to Indigenous communities, advance self-determination and self-governance, and improve the quality of life for First Nations, Inuit, and Métis Nation people in Canada.
- **Delivering Real Change**—Canada is a country defined by its values, and is at its best when everyone has real and fair chance at success. The investments in Budget 2019 will support artists and veterans; improve Canadians' health, public safety, and access to justice; strengthen Canada's role in the world; deliver better government; and make sure our tax system is fair for everyone.

Conclusion

Today, over 900,000 more Canadians are working compared with November 2015. Wages are up and the unemployment rate is near 40-year lows. As of 2017, over 825,000 fewer Canadians are living in poverty compared to 2015. The Government's plan to grow the middle class is working.

Budget 2019 is about building on this progress, and continuing to make a real difference in the lives of Canadians today, and into the future.

It responds to Canadians' concerns, and underscores the fact that for all the progress that has been made, more hard work lies ahead.

It reminds Canadians that when they work hard, together they can make sure that Canada's success is felt by everyone, not just by the privileged few.

It gives people the help they need to succeed today, and offers hope for a brighter tomorrow—one where people have the security and the skills they need to meet whatever change comes their way.

Budget 2019 is about investing in the middle class, to build a better future for all.

OVERVIEW

In 2015, Canada's economy was in a weak position—and so were many Canadians. Low growth, rising unemployment and weak wage growth made it harder for middle class Canadian families to make ends meet, save and plan for the future.

At the same time, Canada's relatively low debt burden, combined with historically low interest rates, gave the Government room to invest to grow the economy—helping to create good, well-paying jobs in the short term, while building the infrastructure and skilled workforce needed to keep the economy strong and growing for years to come.

The results speak for themselves. Instead of facing low growth as a result of austerity and cuts, the Government's investments in people and in the communities they call home have helped to drive the strong economic growth Canadians needed to feel more confident.

With Budget 2019, the Government is continuing to deliver on its economic plan—one that favours investment over austerity, with a clear focus on fiscal responsibility.

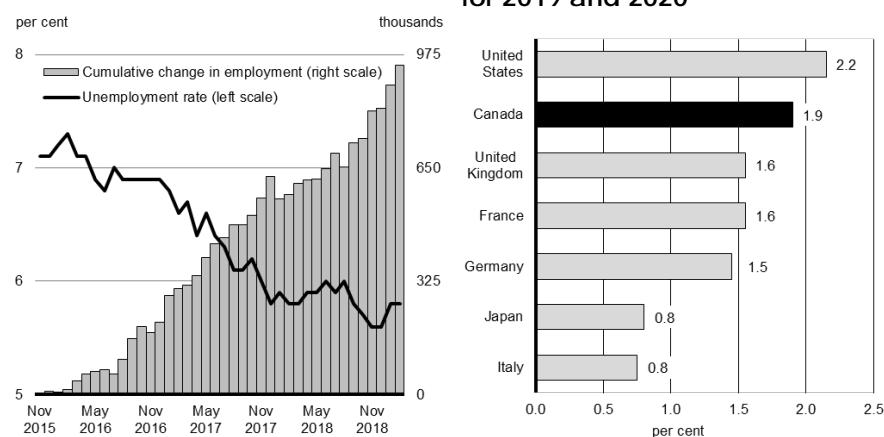
Canadian Economic Context

In a challenging global economic environment, Canada's economy remains sound. Since November 2015, targeted investments and strong economic fundamentals have contributed to creating over 900,000 new jobs, pushing the unemployment rate to its lowest levels in over 40 years (Chart 1). In 2018 alone, all employment gains were full-time jobs.

At 3 per cent growth, Canada had the strongest economic growth of all G7 countries in 2017, and was second only to the U.S. in 2018. Recently, growth in global economic activity has slowed more than expected. At home, growth in the Canadian economy was softer at the end of 2018.

Despite these challenges, the Canadian economy is expected to strengthen over the second half of 2019, and to remain among the leaders for economic growth in the G7 in both 2019 and 2020.

Chart 1
Labour Market Since November 2015



Note: Last data point is February 2019.

Source: Statistics Canada.

Sources: International Monetary Fund, January 2019 *World Economic Outlook Update*; Department of Finance Canada calculations.

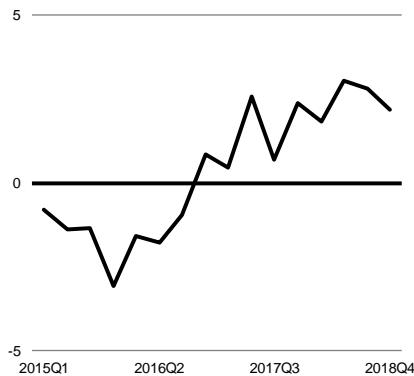
Canada's solid economic performance—bolstered by a strong labour market and the Government's investments in the middle class—also supported solid wage growth last year, coming in at one of the fastest paces of growth recorded in the past eight years. With higher earnings and a strong economy, consumer confidence remains solid. This confidence is expected to help drive household spending and continued economic growth going forward.

At the same time, business sentiment in Canada remains firmly positive and growth in business investment and exports is expected to regain momentum over 2019, supported by new and modernized arrangements with many trading partners, and recently announced tax incentives designed to encourage businesses to invest in and create middle class jobs (Chart 2). This outlook is also supported by Canada's reputation as a good place to invest and do business, as evidenced by Canada being the only G7 country to witness a material improvement in foreign direct investment into the country over the first three quarters of 2018.

Chart 2

Bank of Canada's Business Outlook Survey Indicator

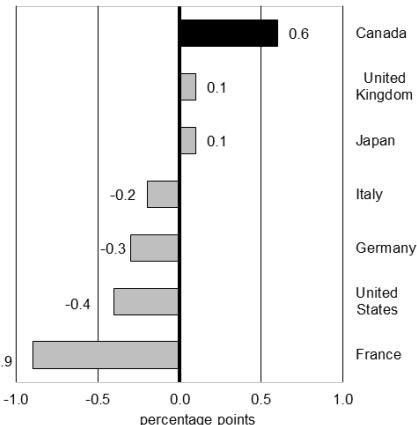
standardized units



Note: Last data point is 2018Q4.

Source: Bank of Canada.

Change in Foreign Direct Investment Inflows as a Share of GDP (year-to-date, 2018)



Notes: Data on foreign direct investment flows and GDP for 2017 and 2018 cover the period Q1 to Q3. Data for 2018Q4 for all countries are not yet available.

Sources: Organisation for Economic Co-operation and Development; Department of Finance Canada calculations.

Budget 2019 Investments

Nearly 20 years into the new century, Canada faces a number of challenges: the cost of living continues to rise for many Canadian families; a rapidly changing world leaves many worried about finding and keeping good, well-paying work; and things like global climate change and the growth of populism are fuelling uncertainty about the future. These challenges call for a responsible and forward-looking response, with a plan for the economy that is fiscally responsible and squarely focused on making life better for the middle class and people working hard to join it.

Budget 2019 continues the Government's plan to invest in the middle class, with a special focus on investing in people and in the things they need to succeed: more affordable places to live, especially for first-time home buyers; skills for a changing job market; lower prescription drug costs to support good health; local infrastructure that helps deliver a good quality of life; and better connections to each other and the world through universal high-speed internet.

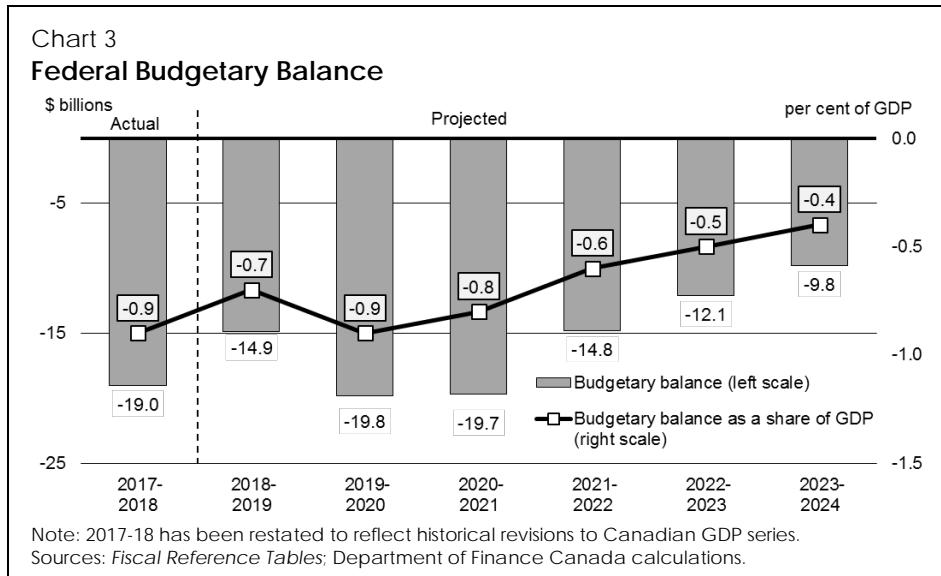
Table 1
Economic and Fiscal Developments Since the 2018 Fall Economic Statement (FES 2018) and Investments Included in Budget 2019
billions of dollars

	Projection					
	2018–2019	2019–2020	2020–2021	2021–2022	2022–2023	2023–2024
FES 2018 budgetary balance¹	-18.1	-19.6	-18.1	-15.1	-12.6	-11.4
Adjustment for risk from FES 2018	3.0	3.0	3.0	3.0	3.0	3.0
FES 2018 budgetary balance (without risk adjustment)	-15.1	-16.6	-15.1	-12.1	-9.6	-8.4
Economic and fiscal developments since FES 2018	5.9	4.8	4.7	3.7	4.1	4.6
Revised budgetary balance before policy actions and investments	-9.3	-11.9	-10.4	-8.4	-5.5	-3.9
Policy actions since FES 2018 ²	-1.4	-1.0	-0.6	-0.6	-0.2	-0.2
Investments in Budget 2019						
Investing in People	0.0	-0.6	-1.3	-1.8	-2.3	-2.4
Building a Better Canada	-3.2	-0.3	-0.8	-0.8	-0.6	-0.4
Advancing Reconciliation	-0.9	-0.7	-1.0	-1.0	-0.6	-0.6
Delivering Real Change	-0.1	-1.7	-1.6	-0.8	-0.5	-0.6
Other Budget 2019 investments ³	0.0	-0.7	-0.9	1.6	0.6	1.2
Total investments in Budget 2019	-4.2	-4.0	-5.7	-2.7	-3.4	-2.8
Total policy actions and investments since FES 2018	-5.6	-5.0	-6.3	-3.3	-3.6	-2.9
Budgetary balance	-14.9	-16.8	-16.7	-11.8	-9.1	-6.8
Adjustment for risk						
Final budgetary balance (with risk adjustment)	-14.9	-19.8	-19.7	-14.8	-12.1	-9.8
Federal debt (per cent of GDP)	30.8	30.7	30.5	30.0	29.3	28.6

Notes: A negative number implies a deterioration in the budgetary balance. A positive number implies an improvement in the budgetary balance.

Maintaining Canada's Low-Debt Advantage

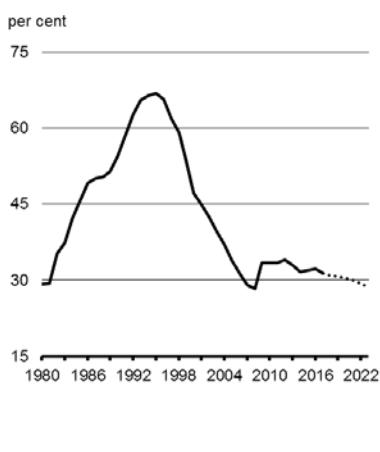
The Government continues to invest in Canada, and in Canadians, in a fiscally responsible way. The Budget 2019 fiscal track is broadly unchanged from that presented in the 2018 *Fall Economic Statement*, with a deficit that is projected to decline from \$19.8 billion in 2019–20 to \$9.8 billion in 2023–24.



The federal debt-to-GDP ratio is also expected to decline every year over the forecast horizon, reaching 28.6 per cent by 2023–24 (Chart 4). A declining federal debt-to-GDP ratio will help to further reduce Canada's net debt-to-GDP ratio, which is already the lowest among G7 countries.

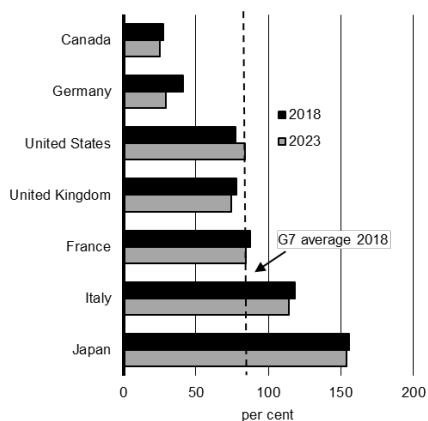
The Government, like Canadians, understands the importance of preserving a low-debt advantage for current and future generations—it supports economic growth and gives Canada the flexibility it needs to respond to changing economic circumstances.

Chart 4
Federal Debt-to-GDP Ratio



Note: Figures have been restated to reflect historical revisions to Canadian GDP series.
Sources: *Fiscal Reference Tables*; Department of Finance Canada calculations.

Canada's Forecasted Net Debt-to-GDP Ratio Lowest in G7



Note: The general government net debt-to-GDP ratio is the ratio of total liabilities, net of financial assets of the central, state and local levels of government, as well as those in social security funds. For Canada, this includes the federal, provincial/territorial and local government sectors, as well as the Canada Pension Plan and the Quebec Pension Plan.
Source: International Monetary Fund, October 2018 *Fiscal Monitor*.



CHAPTER 1

Investing in the Middle Class

From young families taking steps toward homeownership to experienced workers stepping up to embrace new challenges to seniors transitioning into retirement free of worries, a strong middle class is at the heart of Canada's economy, and the key to this country's continued success.

One of the best ways to grow the economy is to invest in the middle class.

That means more money for hard-working families. This helps to make life more affordable, drives consumer demand, and gives businesses the confidence they need to invest in creating more good, well-paying jobs.

Investing in the middle class means taking steps to ensure that more Canadians can afford a place to live that is safe and secure—a place they can be proud to call home.

Investing in the middle class also means preparing for the challenges of today and tomorrow—helping people get the skills they need to find and keep a good job, or get the retraining that will help secure work for years to come.

It means ensuring that more Canadians have access to a secure and dignified retirement after a lifetime of hard work.

And it means making sure that people have access to the medicine they need to stay healthy.

In Budget 2019, the Government remains squarely focused on investing in the middle class—introducing new measures that will help build an economy that works for everyone now, and for the long term.

Part 1: An Affordable Place to Call Home

Every Canadian deserves a safe and affordable place to call home. Yet for many Canadians finding an affordable place to call home is a challenge, especially in some of Canada's largest cities where the rising costs of living, limited housing supply and strong population growth have pushed home purchase and rental costs beyond what many people can afford.

Although rising house prices and a limited supply can make housing affordability a challenge across the board, young, middle class families are especially worried about their prospects for homeownership. The majority of young people who don't own a home view a home purchase as a good investment, based on recent surveys. Yet rather than buying a home early in their working lives as their parents and grandparents could, young people often find themselves unable to enter the housing market, and are forced to delay their dream of home ownership.

Elevated house prices also have spillover effects—making rents more expensive and boosting demand for community and subsidized housing. This has created serious affordability challenges for Canadians in different living situations, from people looking to buy or rent houses to individuals and families living in community housing. Today, one in eight Canadian households cannot find affordable housing that is safe, suitable and well-maintained. That is why the Government introduced the National Housing Strategy in Budget 2017.

The Government is committed to a comprehensive plan supporting housing affordability, in particular for those who are finding it increasingly difficult to purchase their first home.

To that end, Budget 2019 proposes a number of measures, to:

- Make housing more affordable today by reducing barriers to homeownership for first-time home buyers.
- Boost supply in Canada's housing and rental markets.
- Increase fairness in the real estate sector.

Budget 2019's proposed measures would build on the Government's previous investments to enhance housing affordability for those who need it most through the National Housing Strategy.

Improving Affordability Today: Support for First-Time Home Buyers

Budget 2019 proposes to introduce targeted support for first-time home buyers, while maintaining the prudent safeguards that protect consumers and promote responsible home purchase decisions.

Introducing the First-Time Home Buyer Incentive

Saving enough for a down payment on a home and managing the monthly costs of homeownership can be challenging—especially for first-time home buyers, many of whom are trying to establish or advance their careers, raise young families, or even relocate to a new community.

>To help make homeownership more affordable for first-time home buyers, Budget 2019 proposes to introduce the First-Time Home Buyer Incentive. The Incentive utilizes a unique financing model that has been used by affordable housing associations and non-profits in Canada and elsewhere. The Incentive enables home buyers to reduce the amount of money required from an insured mortgage without increasing the amount they must save for a down payment. Through the First-Time Home Buyer Incentive, Canada Mortgage and Housing Corporation (CMHC) would provide up to \$1.25 billion over three years (starting in 2019–20) to eligible home buyers by sharing in the cost of a mortgage. As a means-tested program, the Incentive would target Canadians that face legitimate challenges entering housing markets.

What Is the CMHC First-Time Home Buyer Incentive?

The CMHC First-Time Home Buyer Incentive is a shared equity mortgage that would give eligible first-time home buyers the ability to lower their borrowing costs by sharing the cost of buying a home with CMHC. The Incentive would provide funding of 5 or 10 per cent of the home purchase price. No ongoing monthly payments are required. The buyer would repay the Incentive, for example at re-sale.

For example, if a borrower purchases a \$400,000 home with a 5 per cent down payment and a 5 per cent CMHC shared equity mortgage (\$20,000), the size of the borrower's insured mortgage would be reduced from \$380,000 to \$360,000, helping to lower the borrower's monthly mortgage bill. This would make it easier for Canadians to buy homes they can afford.

How the First-Time Home Buyer Incentive Would Work

Eligible first-time home buyers who have the minimum down payment for an insured mortgage would apply to finance a portion of their home purchase through a shared equity mortgage with CMHC.

The Incentive would reduce the monthly payments required to buy a home. This would give first-time home buyers greater flexibility both in purchasing a home and managing its ongoing costs. With a shared equity mortgage, first-time home buyers would save money every month, giving them more money to pay down their insured mortgage sooner or for other priorities.

CMHC would offer qualified first-time home buyers a 10 per cent shared equity mortgage for a newly constructed home or a 5 per cent shared equity mortgage for an existing home. This larger shared equity mortgage for newly constructed homes could help encourage the home construction needed to address some of the housing supply shortages in Canada, particularly in our largest cities.

The First-Time Home Buyer Incentive would include eligibility criteria to ensure that the program helps those with legitimate needs while ensuring that participants are able to afford the homes they purchase. The Incentive would be available to first-time home buyers with household incomes under \$120,000 per year. At the same time, participants' insured mortgage and the Incentive amount cannot be greater than four times the participants' annual household incomes.

Shared equity mortgages are currently offered by non-profit and other providers in some regions. Budget 2019 proposes to establish a fund to assist providers of shared equity mortgages, helping eligible Canadians achieve affordable homeownership. The fund, to be administered by CMHC, would provide up to \$100 million in lending to shared equity mortgage providers over a five-year period, starting in 2019–20, to help existing shared equity mortgage providers scale-up their business and encourage new players to enter the market.

The Government will propose legislation that would enable CMHC to offer the First-Time Home Buyer Incentive and administer a fund for third-party shared equity mortgage providers. More details about CMHC's First-Time Home Buyer Incentive and funds to assist other providers of shared equity mortgages will be released later this year, with the programs expected to be operational by September 2019.

The First-Time Home Buyer Incentive: A New, More Affordable Path to Homeownership

Anita is seeking to buy a new condo in Ajax, Ontario for \$400,000. Under the First-Time Home Buyer Incentive, Anita can apply to receive \$40,000 in a shared equity mortgage (10 per cent of the cost of a new home) from CMHC, lowering the total amount she needs to borrow.

Compared with an insured mortgage, the CMHC First-Time Home Buyer Incentive would enable Anita to pay \$228 less in mortgage payments every month. Anita can use these savings to invest in her future, such as buying a home better suited to her needs, paying down her insured mortgage sooner, or having more monthly disposable income, e.g., to pay for a more convenient option for child care. When Anita sells her condo in the future, CMHC is repaid.

Savings in Mortgage Payments with the CMHC First-Time Home Buyer Incentive

\$228 per month / \$2,736 per year

Insured Mortgage Model (No Incentive)	CMHC First-Time Home Buyer Incentive Model
House Price	\$400,000
Down payment	\$20,000 (5%)
	CMHC First-Time Home Buyer Incentive
Insured Mortgage	\$380,000 (95%)
Monthly carrying cost*	\$1,973
	Insured Mortgage
	Monthly carrying cost*

*Assumes an amortization period of 25 years and a mortgage rate of 3.5%.

Modernizing the Home Buyers' Plan

To help with the down payment and costs associated with the purchase of a first home, the Home Buyers' Plan (HBP) allows first-time home buyers to withdraw up to \$25,000 from their Registered Retirement Savings Plan (RRSP) to purchase or build a home, without having to pay tax on the withdrawal.

Unlike regular RRSP withdrawals, HBP withdrawals are not added to a person's income when withdrawn. Instead, the HBP withdrawals must be repaid over a 15-year period or included in the individual's income if not repaid.

The HBP maximum withdrawal amount—currently \$25,000—has not been adjusted for 10 years.

► To provide first-time home buyers with greater access to their RRSP savings to purchase or build a home, Budget 2019 proposes to increase the Home Buyers' Plan withdrawal limit to \$35,000. This would be available for withdrawals made after March 19, 2019.

Alex and Michelle are a young couple living in Toronto where high home prices have put their goal of homeownership further from reach. With the increased HBP withdrawal limit, they will be able to withdraw up to \$35,000 each from their RRSPs, for a total of \$70,000, allowing them to contribute more toward their down payment, making home ownership possible.

For Canadians who have experienced a breakdown in their marriage or common-law partnership, it can be difficult to keep the family home under new and more challenging financial circumstances.

► To help Canadians facing this challenging life event maintain homeownership, Budget 2019 also proposes that individuals that experience the breakdown of a marriage or common-law partnership be permitted to participate in the Home Buyers' Plan, even if they do not meet the first-time home buyer requirement. This measure would be available for withdrawals made after 2019.

Increasing the HBP withdrawal limit to \$35,000 and extending access to individuals who experience the breakdown of a marriage or common-law partnership is estimated to reduce federal revenues by \$145 million over five years, starting in 2019–20.

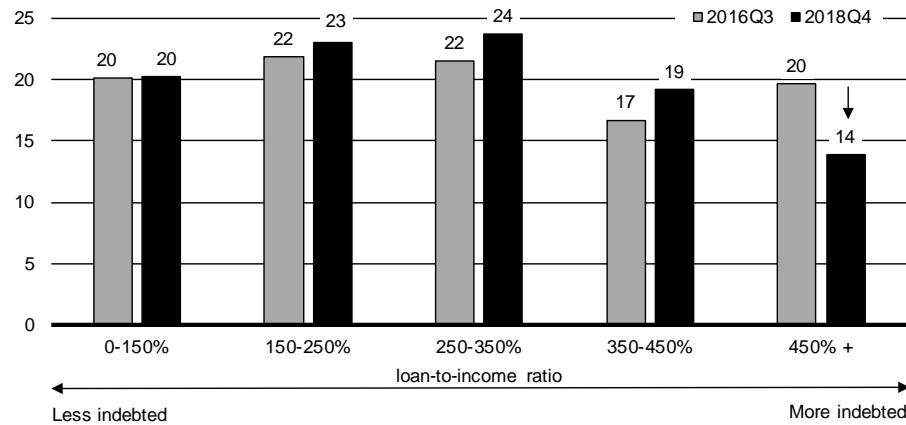
Impact of Mortgage Rate Stress Tests

The Government has a responsibility to support a stable housing market and economy. Recent policies introduced by the Government and the Office of the Superintendent of Financial Institutions, the independent federal banking regulator, are helping to ensure that Canadians take on mortgages they can afford, even if interest rates rise or incomes change. The Bank of Canada and other institutions have undertaken analysis outlining how the mortgage interest rate "stress tests" are having their intended impacts. These measures have reduced the number of new home buyers with debt levels that extend well beyond their incomes.

Chart 1.1

Distribution of New Mortgages by Loan-to-Income Ratio

per cent



Notes: Data include purchases and refinances originated by federally regulated financial institutions.
Sources: Regulatory filings of Canadian banks; Department of Finance Canada.

These policies underpin stability for Canada's economy, financial institutions and individual families, benefitting all Canadians. These actions have also contributed to slower growth in house prices and reduced speculation in key areas, helping to limit the amount of debt Canadians must take on to buy a home and improve housing affordability. Nonetheless, household debt remains high, and there continue to be risks in the global economic environment.

The Government continues to closely monitor the effects of its mortgage finance policies—including the stress test for insured mortgages—and would adjust them if economic conditions warrant, to support access to housing while safeguarding financial stability.

Working Together: Increasing Housing Supply Through Partnerships and Targeted Investments

In some of Canada's largest cities, many lower income and middle class Canadians are struggling to find, maintain and afford a good place to live. The reality is that housing supply in Canada's more expensive markets, in particular Toronto and Vancouver, has not grown quickly enough to meet rising housing demand. This lack of supply boosts house and rental prices and makes it more difficult for Canadians to afford housing.

One of the most effective ways to address housing affordability in the long run is to encourage the creation of more housing supply. This will help ensure that house prices grow at a more moderate pace, help keep home ownership or renting more affordable for more Canadians and help keep markets accessible to future generations. Budget 2019 proposes to make long-term investments and collaborate with key partners to boost housing supply in a manner that reflects the housing needs of a broad range of Canadian families. Building more of the right kind of housing supply will keep these Canadian cities livable now and into the future.

Expanding the Rental Construction Financing Initiative

As house prices rise, the rental market is simply not keeping pace with growing demand—especially in large cities where rental vacancy rates hover around one per cent. When demand for limited spaces increases, so too does the average monthly cost of renting. This makes it harder for lower income and middle class Canadians to find an affordable place to live near their work or school, and for future homeowners to save for a down payment.

To help address this challenge, the Government launched the Rental Construction Financing Initiative in 2017—a four-year program that provides low-cost loans for the construction of new rental housing for modest and middle income Canadians. In Budget 2018, the program was enhanced to help build 14,000 new units over the life of the program. To date, applications to the program have been received from every region of Canada. More than 50 projects have been prioritized to receive a loan, and 17 projects, representing 2,000 rental units, have been announced.

 To provide more affordable rental options for middle class Canadians, Budget 2019 proposes to provide an additional \$10 billion over nine years in financing through the Rental Construction Financing Initiative, extending the program until 2027–28. With this increase, the program would support 42,500 new units across Canada, particularly in areas of low rental supply. On an accrual basis, this represents an investment of \$829.5 million over 19 years, starting in 2019–20.

Rental Construction Financing Initiative

Launched in April 2017, this initiative supports the construction of new rental housing by offering favourable financing rates and terms to developers, relieving pressure in rental markets that are experiencing low vacancy rates. Borrowers must meet minimum requirements for affordability, energy efficiency and accessibility.

Woodman's Grove Residences Wolfville, Nova Scotia

The federal government is investing close to \$8.2 million for the construction of Woodman's Grove Residences. The four-storey building will provide safe and affordable homes to 48 middle class families. All units will have rents at or lower than 30 per cent of median household income in the area. The building will also achieve energy savings of more than 70 per cent and a reduction in greenhouse gas emissions of more than 25 per cent.

Claridge Homes Housing Project Ottawa, Ontario

The federal government is investing \$70.8 million for the construction of a 27-storey building with 227 rental housing units. Over 200 of the new units will have rents lower than 30 per cent of median household income in the area. The project will achieve strong accessibility and energy efficiency outcomes, with more than 10 per cent of units being accessible and projected energy efficiency savings of 50 per cent.

Encouraging Innovation With the Housing Supply Challenge

The issue of housing supply, particularly in Canada's most expensive cities is complex. Not only do Canadians require the right kind of homes to be built, things like the accessibility of schools and daycare, and the proximity to public transit are also factors municipal planners must take into consideration when designing sustainable communities that work well. The Government of Canada can help facilitate the new innovative approaches to accelerate construction approvals and densification that are being developed across the country.

➔ To help municipalities grow housing supply and unlock new solutions for Canadians searching for an affordable place to call home, Budget 2019 proposes to provide \$300 million to launch a new Housing Supply Challenge.

The Housing Supply Challenge will invite municipalities and other stakeholder groups across Canada to propose new ways to break down barriers that limit the creation of new housing. Successful applicants will be selected and funded through a merit-based competition. The Challenge aims to provide new resources to find new solutions to enhance housing supply and provide a platform to share these models with communities across Canada.

Infrastructure Canada and Canada Mortgage and Housing Corporation will collaborate on the design of the Challenge, with further details to follow by summer 2019.

Launching an Expert Panel on the Future of Housing Supply and Affordability

To make our highest-priced cities affordable for middle class Canadians, governments need to work together to fully understand housing challenges and how best to address them.

On March 15, 2019, the Ministers of Finance for Canada and British Columbia as well as the Minister of Municipal Affairs and Housing for British Columbia came together to launch an Expert Panel on the Future of Housing Supply and Affordability. The Expert Panel will consult with stakeholders to identify and evaluate measures that could build on recent investments and initiatives to increase the supply of housing in British Columbia to meet demand. The Panel will be comprised of leaders and specialists in a range of fields with relevant expertise who will be jointly selected by the governments of Canada and British Columbia in the coming months.

Canada's national housing agency, Canada Mortgage and Housing Corporation, currently conducts and shares housing research and analysis. The Corporation is well-placed to support the Panel's efforts to better understand housing challenges and potential solutions.

- ➔ Budget 2019 proposes that Canada Mortgage and Housing Corporation invest \$4 million over two years to support the work of the Expert Panel on the Future of Housing Supply and Affordability.
- ➔ To improve efforts to address housing supply, Budget 2019 proposes that Canada Mortgage and Housing Corporation invest \$5 million over two years for state-of-the-art housing supply modelling and related data collection. This would support the work of the Expert Panel and help ensure that future investments by all levels of government are put to their best possible use.

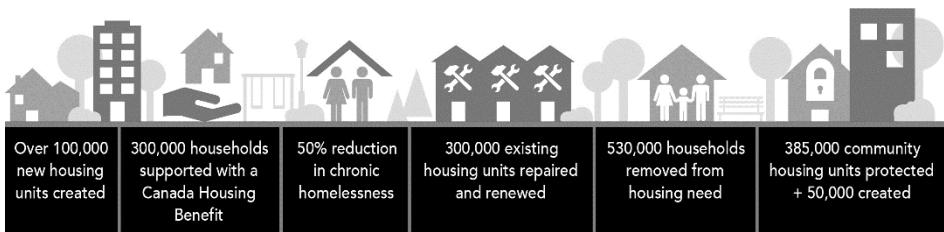
The Government is committed to working in partnership with other jurisdictions in Canada that share concerns about the supply of affordable housing, and are willing to work together to find solutions.

Delivering on Canada's First National Housing Strategy

Every Canadian needs a safe and affordable place to call home. As more and more Canadians struggle with housing affordability, Canada's most vulnerable people are at greatest risk of experiencing inadequate housing and homelessness. This can include seniors, women and children fleeing domestic violence, Indigenous Peoples and persons with disabilities.

In 2017, to help more Canadians have access to housing that affordably meets their needs, the Government launched the National Housing Strategy, a 10-year, \$40 billion plan that will build 100,000 new affordable housing units, repair 300,000 others, and reduce chronic homelessness by 50 per cent.

**Figure 1.1: Canada's First National Housing Strategy
A 10-Year, \$40 Billion Plan**



Since announcing the Strategy:

- The new National Housing Co-Investment Fund has been launched, and is expected to help build 60,000 new units and repair or renew 240,000 existing units of affordable and community housing through contributions and low-cost loans.
- Seven provinces and territories have now signed bilateral agreements under the multilateral Housing Partnership Framework, which will see more than \$7.7 billion in new federal funding flow to provinces and territories over the next decade to support the stock of community housing and address regional priorities.

In Budget 2019, the Government also proposes to introduce new legislation which will require the federal government to maintain a National Housing Strategy that prioritizes the housing needs of the most vulnerable, and will require regular reporting to Parliament on progress toward the Strategy's goals and outcomes.

National Housing Co-Investment Fund

Launched in May 2018, the Co-Investment Fund provides a mix of contributions and low-cost loans for the construction and repair of a range of affordable housing projects, including community housing, supportive and transitional housing, and shelters for survivors of domestic violence. To make federal investments go further, projects must also leverage support from other levels of government.

Construction of the New Maison de Lauberivière Québec, Quebec

The Government of Canada is contributing almost \$4.4 million towards the new Maison de Lauberivière, a 10,000-square-metre building which will have seven floors and feature 131 rooms for emergency and support services for homeless or vulnerable individuals, as well as 18 transitional housing units for people living with a mental health condition.

Building Safe and Affordable Housing Hamilton, Ontario

The Government of Canada is contributing over \$10 million towards the construction of 50 units at the YWCA Hamilton Ottawa Street Redevelopment. The Province of Ontario and the City of Hamilton are also partners in this project, which will provide safe and affordable housing for 35 women and women-led families, as well as another 15 units geared toward women with developmental disabilities.

Over the next year, important measures will be introduced to deliver on the Government's National Housing Strategy commitments. Reaching Home, a new \$2.2 billion program to prevent and reduce homelessness, will launch on April 1, 2019—with the goal to reduce chronic homelessness by 50 per cent. Starting in 2020, a new, \$4 billion Canada Housing Benefit will provide financial relief directly to those in core housing need and, over time, is expected to support 300,000 households. It is currently being co-developed with provinces and territories to ensure that the benefit is tailored to the diverse realities and needs across the country.

Working to Eliminate Homelessness in Greater Victoria

In 2018, the Government of Canada invested \$30 million, as part of a \$90 million partnership with the Province of British Columbia through BC Housing and Victoria's Capital Regional District, with the goal of eliminating chronic homelessness in the Greater Victoria Region. Funding was provided through CMHC's Affordable Housing Innovation Fund, and based on the most recent data, will result in enough housing units to help eliminate chronic homelessness in the region.

Increasing Fairness: Strengthening Rules and Compliance in Canada's Housing Market

The purchase of a home often represents the single largest investment individuals will make in their lifetimes. For this reason, it is critical that rules for buying or renting housing are applied equally across Canada's housing market, in a fair and transparent manner.

Taking Action to Enhance Tax Compliance in the Real Estate Sector

The Canada Revenue Agency (CRA) helps contribute to a healthy, competitive and stable Canadian housing market through its efforts to address tax non-compliance in real estate transactions.

Through the use of advanced risk assessment tools, analytics and third-party data, as well as collaboration with the provinces and territories to share information and access to data, the CRA is continuously enhancing its ability to detect, and take action whenever it finds, real estate transactions where parties have failed to pay the required taxes.

Recent efforts have uncovered more than \$100 million of additional taxes assessed due to increasingly complex real estate transactions, which can only be addressed by auditors and business intelligence officers with specific knowledge, training, and expertise.

 Budget 2019 proposes to provide the CRA with \$50 million over five years, starting in 2019–20, to create four new dedicated residential and commercial real estate audit teams in high-risk regions, notably in British Columbia and Ontario. These teams will work to ensure that tax provisions regarding real estate are being followed, with a focus on ensuring that:

- Taxpayers report all sales of their principal residence on their tax returns;
- Any capital gain derived from a real estate sale, where the principal residence tax exemption does not apply, is identified as taxable;
- Money made on real estate flipping is reported as income;
- Commissions earned are reported as taxable income; and
- For Goods and Services Tax/Harmonized Sales Tax (GST/HST) purposes, builders of new residential properties remit the appropriate amount of tax to the CRA.

The expected revenue from this initiative is \$68 million over five years, starting in 2019–20.

Deterring Financial Crime in Real Estate

The Government continues to work to deter financial crime, including mortgage fraud and money laundering in the real estate sector, through a strengthened enforcement framework, better outreach to and monitoring of private sector partners, and collaborative work among government leads. Federal, provincial and territorial governments are working together to make financial transactions related to corporate ownership more transparent, so that the true identities of parties involved in real estate transactions can be known.

To support this, the Financial Transactions and Reports Analysis Centre of Canada will continue to expand its outreach and examinations in the real estate sector, with a focus on the province of British Columbia, to improve detection of money laundering activities.

In addition, Canada has established a joint working group with the Province of British Columbia to examine issues related to tax fraud and money laundering in British Columbia and the Metro Vancouver region. The Government will continue to collaborate with its provincial and territorial partners to preserve the integrity and affordability of Canada's real estate market.

Monitoring Purchases of Canadian Real Estate

Together, tax non-compliance and money laundering can push up the cost of housing, making homeownership less affordable for middle class Canadians. To better fight these activities and protect fairness in Canada's real estate markets, federal enforcement agencies need access to good, high-quality data on foreign and domestic purchases of homes.

One way to do this is by working closely with other orders of government, including by using advancements in provincial and territorial records on real estate ownership to strengthen tax compliance. For example, British Columbia has recently enhanced its monitoring capabilities for real estate, including through the administration of its new speculation and vacancy tax. The data collected is shared with the Canada Revenue Agency, helping both British Columbia and Canada better administer their respective tax systems and Canada meet its information sharing obligations under international exchange of information relationships.

▲ To improve monitoring of real estate purchases and ensure that information is shared in a timely manner, Budget 2019 proposes to provide Statistics Canada with up to \$1 million over two years starting in 2019–20 to conduct a comprehensive federal data needs assessment. The assessment would seek to facilitate further streamlining of data sharing between federal and provincial governments to inform enforcement efforts on tax compliance and anti-money laundering.

Results of the assessment would initially be used to inform the work of the British Columbia–Canada Working Group on Real Estate. The federal government is interested in working with other jurisdictions in Canada to jointly improve monitoring of real estate transactions across the country.

Part 2: A New Approach to Helping Middle Class Canadians Find and Keep Good Jobs

Canada is a country whose economic success has always rested on the talent and creativity of its people. Well-educated, ambitious and hard-working, Canadians have what it takes to compete and succeed, even in an increasingly competitive global economy.

The challenge for Canada—and for Canadians—will be to find new ways to learn, and new ways to approach the changing world of work. This includes a rise in automation that challenges the very nature of work, with the Organisation for Economic Co-operation and Development (OECD) estimating that about one in ten Canadian jobs are at high risk of automation within the next 10 to 20 years, with about one in three jobs likely to experience significant change as a result of automation.

While past transitions suggest that the number of new jobs created will more than make up for those lost, this kind of change can be disruptive for many Canadians. It will be important to ensure that Canadians feel greater certainty in their skills and their ability to adapt to ongoing change.

"To motivate both individuals and employers to significantly increase their investments in skills development, the government needs to deliver a jolt to the system by providing financial incentives, while also encouraging new training practices for all industries, all ages, and throughout the country."

— Advisory Council on Economic Growth
2017

Budget 2019 proposes new measures to support Canadians of all ages—as they enter the workforce and throughout their working lives.

Investing in Workers

Canadians work hard every day to take care of their families, support their communities and grow the economy. By investing in workers—giving them the tools and support they need for their continued success—the Government is helping workers find and keep good jobs today, and prepare for the new good jobs of tomorrow. These investments include:

Labour Market Development Agreements

These agreements between the federal government and the provincial and territorial governments help to deliver skills training and employment assistance to workers eligible for Employment Insurance (EI). This allows workers to access the help they need, when they need it most.

Investment: \$1.8 billion over six years, announced in Budget 2017.

Workforce Development Agreements

Introduced in 2017, these agreements provide support for Canadian workers who are not eligible for EI, including persons with disabilities, creating flexible opportunities to upgrade skills, gain work experience or start a business.

Investment: \$900 million over six years, announced in Budget 2017.

Skills Boost

A suite of measures announced in Budgets 2017 and 2018, these programs support Canadian workers who want to return to school and upgrade their skills, and include:

- Updated Canada Student Loans Program eligibility criteria to better assist part-time learners and low- and middle-income students with dependent children as they seek to retrain.
- Expanded Canada Student Grants to allow people who have been out of high school for at least 10 years to receive up to an additional \$1,600 per school year (\$200 per month) in top-up grant funding under a three-year pilot program.
- Revised Canada Student Grants eligibility criteria for participants to allow current income to be considered in their eligibility assessment, to better reflect the true economic circumstances of working or unemployed Canadians whose employment situation has changed significantly from the previous year.
- Changed EI eligibility rules to allow unemployed Canadians to enroll in full-time training without affecting their eligibility for EI benefits.

Investment: \$575 million over four years, launched in the 2018-19 academic year and based on announcements in Budgets 2017 and 2018.

Future Skills

The Future Skills initiative will play a key role in ensuring that the Government is able to provide skills development programs that help Canadians prepare for the future of work by exploring major trends shaping the future and testing innovative approaches to prepare Canadians to meet them head-on.

Investment: \$225 million over four years, with \$75 million per year ongoing, announced in Budget 2017.

Horizontal Skills Review

The Government makes significant investments in skills development—close to \$7.5 billion annually—across more than 100 distinct programs, ranging from programs for literacy and essential skills and apprenticeships, to those that assist newcomers to Canada in entering the labour market. Almost \$3 billion of this programming is delivered in partnership with the provinces, territories and Indigenous groups, and targets students and Canadians who are unemployed.

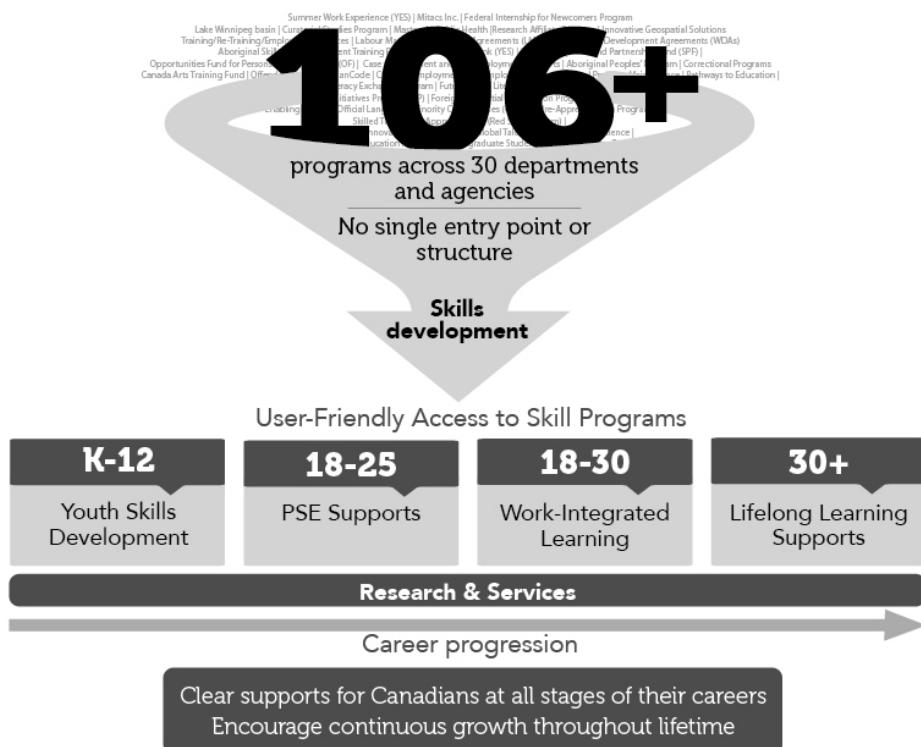
In Budget 2018, the Government committed to a review of skills programming, to maximize its effectiveness, particularly the way in which support is provided to workers wishing to take advantage of emerging opportunities.

The review found that Canada has a robust suite of programs that support the development of key skills for Canadians—programs that encourage more people to work, including those who are traditionally underrepresented in the workforce, and those who face significant barriers to employment.

It also provided an opportunity to reflect on successes and determine where more can be done to help more Canadians find and keep good jobs. For instance, the review found that the current suite of programs is well-positioned to respond to the needs of post-secondary students, but that more can be done to provide all students the opportunity to gain valuable work experience, at home and abroad.

The review also recognized that there are a broad range of supports in place to help unemployed Canadians acquire and develop new skills, but that working adults in mid-career could benefit from more opportunities to refresh their skills, or gain new ones. This is consistent with what the Government has heard from other stakeholders, including the Government's Advisory Council on Economic Growth and Canada's Economic Strategy Tables, who have stressed the importance of investing in proactive retraining for working adults and encouraging everyone to embrace a culture of lifelong learning.

Figure 1.2: Horizontal Skills Review



Following the Horizontal Review, the Government believes targeted changes could be made to help Canadians more easily navigate the programs and supports they need, improve the way that programs reflect the emerging skills needs in the labour market, and improve how programs show results so that decision-makers can better identify and invest in “what works.”

Through Budget 2019, the Government is committed to making improvements that simplify access to programming so that more Canadians can benefit from existing supports, and to ensure that the skills people have are a good match with what employers need today—and in the future.

Improving Gender and Diversity Outcomes in Skills Programs

 Budget 2019 provides \$5.0 million over five years, starting in 2019–20, to Employment and Social Development Canada to develop a strategy and improve capacity to better measure, monitor and address gender disparity and promote access of under-represented groups across skills programming. This will build on work already underway to improve the quality and accessibility of labour market information, in partnership with Statistics Canada and the Labour Market Information Council.

Introducing the Canada Training Benefit

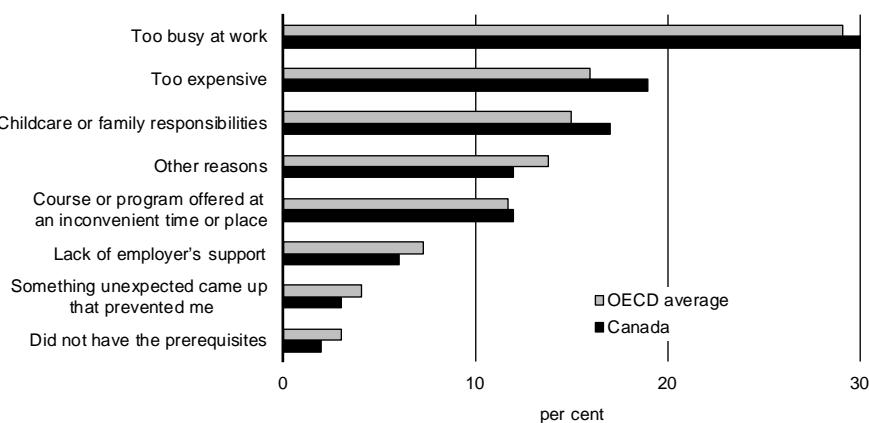
For generations, middle class Canadians and those working hard to join them could be assured that with a good job came a good quality of life. Families were able to pay their bills, save for their retirement, and set aside money to give their kids a good education and a path to future success.

Today, the evolving nature of work means that people may change jobs many times over the course of their working lives or they may require new skills to adapt to changing roles. For working Canadians, this presents a new challenge: how to get the training they need to keep their existing jobs, or prepare for a new one.

Canadians who are already finding it difficult to make ends meet may find it tough to set aside money for additional training—even if that is what will give them the best chance at long-term success. Others, especially middle class Canadians with family responsibilities, struggle to find the time between work and family pressures to get new skills.

Chart 1.2

What Prevents People From Getting Additional Training or Education?



Notes: This chart reports adults' main reason for not participating in (more) formal and/or non-formal education. Figures are reported for the population aged 25 to 64 years who either participated in training and want to participate more or did not participate in training but wanted to participate.

Sources: OECD, Survey of Adult Skills (Programme for the International Assessment of Adult Competencies), 2012, 2015.

Canadians at all stages in their working lives should have the opportunity to invest in new skills, build greater job security and chart a better future for themselves and their families.

- To help working Canadians get the skills they need to succeed in a changing world, Budget 2019 proposes to establish a new **Canada Training Benefit**—a personalized, portable training benefit to help people plan for and get the training they need. To deliver this new program, Budget 2019 proposes to invest more than \$1.7 billion over five years, and \$586.5 million per year ongoing.

How the Canada Training Benefit Will Work

The Canada Training Benefit includes two key components—a new, non-taxable **Canada Training Credit** to help with the cost of training fees, and a new **Employment Insurance (EI) Training Support Benefit** to provide income support when an individual requires time to take off work. In addition, the Government intends to consult on changes to federal, provincial and territorial labour legislation to ensure that workers can take time away from work to pursue training without risk to their job security.

What the Canada Training Benefit Means for Workers

After four years, workers will have four weeks for training, up to \$1,000 to help pay for the training, money to help cover living expenses, and the security of knowing they'll have a job to come back to when their training is done.

Figure 1.3: Canada Training Benefit

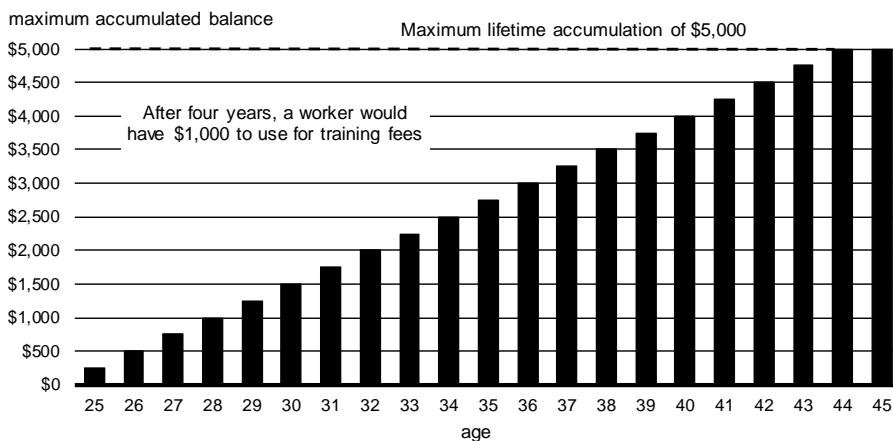
 Training Credit	 EI Training Support Benefit	 Leave Provisions
<ul style="list-style-type: none">Targets Canadian workers aged 25-64 years old.Canadians automatically accumulate \$250 per year, up to a lifetime limit of \$5,000.Workers need to have at least \$10,000 in earnings from work (including maternity or parental leave benefits) and income below about \$150,000 to be eligible, and must file a tax return.Balance can be applied against training fees at colleges, universities, and eligible institutions providing occupational skills training starting in 2020.	<ul style="list-style-type: none">Income support for up to 4 weeks paid leave, at 55% of average weekly earnings, that can be taken within a 4 year period.Workers need to accumulate 600 hours of insurable employment in their qualifying period to be eligible.Workers have flexibility to access the benefit when they need it over a four-year period.Includes support for small businesses through an EI Small Business Premium Rebate.	<ul style="list-style-type: none">Leave provisions that protect workers' entitlement to take time away from work to pursue training.

Canada Training Credit

- This new, non-taxable credit would help Canadians pay for training fees. Every year, eligible workers between the ages of 25 and 64 would accumulate a credit balance of \$250 per year, up to a lifetime limit of \$5,000. With this credit, a Canadian worker would accumulate \$1,000 every four years, to be used for training fees.

- The accumulation of this refundable tax credit would be available to workers with earnings of at least \$10,000 (including maternity and parental benefits) and income less than around \$150,000 a year (\$147,667 in the 2019 tax year).
- Canadians would be able to apply their accumulated Canada Training Credit balance against up to half the cost of training fees at colleges, universities, and eligible institutions providing occupational skills training starting in 2020.
- Canadians would claim this refund when they file their tax return. The updated credit balance would be included in the information the Canada Revenue Agency (CRA) sends to Canadians each year after they file their taxes. Canadians would also be able to check the total of their balance at any time, using CRA's My Account.
- To introduce and deliver this new credit, Budget 2019 proposes to invest \$710 million over five years, starting in 2019–20, and \$265 million per year ongoing.

Chart 1.3
Training Credit Balance by Age



EI Training Support Benefit

- This new benefit—expected to be launched in late 2020—would be available through the EI program and would provide up to four weeks of income support, every four years. This income support—paid at 55 per cent of a person's average weekly earnings—would help workers cover their living expenses, providing support for ongoing payments such as mortgage payments, electricity bills, and general life costs, while on training and without their regular paycheque.
- The new EI Training Support Benefit would provide workers with the flexibility to train when it works best for them, within a four-year period (for example, taking three weeks of paid leave in the first year, and the final week in the last year).

- To introduce and deliver this new benefit, Budget 2019 proposes to invest \$1.04 billion over five years, starting in 2019–20, and \$321.5 million per year ongoing.

Making the EI Training Support Benefit Work for Employers

- Improved access to training will mean that Canadian workers have the right skills to adapt and succeed in a changing economy, and are able to respond to the evolving needs of employers across Canada.
- At the same time, the Government recognizes that small businesses may worry about how the new EI Training Support Benefit may affect their bottom line in the short term. As a reflection of the Government's commitment to making this new benefit work for employers as well as workers, **Budget 2019 proposes to introduce an EI Small Business Premium Rebate**. Starting in 2020 any business that pays employer EI premiums equal to or less than \$20,000 per year would be eligible for a rebate to offset the upward pressure on EI premiums resulting from the introduction of the new EI Training Support Benefit.

Leave Provisions

- Recognizing that many workers cannot afford to risk their employment while they pursue training, the Government proposes to consult with provinces and territories on changes to labour legislation to support new leave provisions.
- These new leave provisions would ensure that workers are entitled to leave and job protection while they are on training and receiving the EI Training Support Benefit. Employers, for their part, will benefit from motivated employees with upgraded skills, and small business will be protected against any increases in EI premiums.

In the coming months, the Government will consult with workers, employers, educational institutions and training providers, as well as provinces and territories, to finalize the design of the new EI Training Support Benefit and leave provisions.

How the Canada Training Benefit Will Help Workers and Employers

As a comprehensive collection of supports, the Canada Training Benefit targets the most pressing barriers to ongoing learning and retraining.

By cutting the direct costs of training by up to 50 per cent, workers can more easily save for—and benefit from—new training and new skills.

With income support through the EI program, workers won't have to choose between their training needs and their family's needs. Workers can take the time they need to invest in new skills, knowing that support is available to help them cover their living expenses.

With job protection through the leave provisions, workers will be able pursue training without worrying about losing their jobs.

And for employers, the benefits are also considerable. The Canada Training Benefit means workers with continually upgraded skills will be better able to help them—and Canada's economy as a whole—adapt and grow.

Canada Training Benefit by the Numbers

After four years, a typical Canadian worker will have:

- A \$1,000 Canada Training Credit balance, which can be claimed fully against training and tuition fees of \$2,000 or more.
- Up to four weeks of income support through the EI Training Support Benefit, paid at 55 per cent of average weekly earnings.

Using the Canada Training Benefit

Martin is a 37-year-old customer service representative working in a busy call centre. He earns \$35,000 per year and likes his job, but knows that customer service is becoming increasingly automated. He is considering taking a five-week college course in human resources, to improve his chances of getting one of the shift manager jobs at his company.

After four years, Martin has accumulated \$1,000 to his Canada Training Credit balance, and because he has been working full-time for several years, is eligible for the EI Training Support Benefit.

Figure 1.4: Canada Training Benefit



EI Training Support Benefit

- Up to 4 weeks of paid leave that can be taken within a 4 year period
- 55% income replacement

Meets the eligibility criteria for the EI Training Support Benefit.

How Does the Canada Training Benefit Work for Martin?

Step 1: Prior to training

After confirming that the training institution he is interested in is eligible for the Canada Training Credit, Martin checks his balance through My Account, to make sure that he has the credit balance needed to take the next step. With that information confirmed, Martin discusses his training plan with his employer, letting them know that he'll need to take a leave to attend the course, offered by a local community college.

Step 2: Enrolling in training

Martin registers for the training course. He pays the full cost of registering for the course—\$2,000—knowing that he will be able to claim the \$1,000 Canada Training Credit when he files his taxes for the year.

Step 3: During training

Martin applies for the EI Training Support Benefit through Service Canada, to access his four weeks of benefits. Once his application is processed and eligibility is determined, Martin will start to receive up to 55 per cent of his average weekly earnings, via direct deposit.

Step 4: After training

After completing the course, Martin returns to work, bringing with him new skills that help him feel more confident about his work, and his future with his employer. Several months later, when he files his income tax return for the year, Martin claims the \$2,000 he paid in tuition fees, and receives a \$1,000 tax credit, drawn from his Canada Training Credit balance, which builds up again as Martin continues to work.

Overall, Martin will receive:	
Canada Training Credit	\$1,000
EI Training Support Benefit (4 weeks)	<u>\$1,481</u>
Total support from the	
Canada Training Benefit:	\$2,481

Preparing Young Canadians for Good Jobs

"Working together, we will find better ways to put the skills of young Canadians to work, and benefit from their contributions to a stronger economy and more equal society."

— Expert Panel on Youth Employment 2017

Young Canadians are more diverse, better educated and more socially connected than ever before. They have the curiosity needed to learn skills, and the ambition required to work hard and succeed.

At the same time, for too many families, the rising cost of post-secondary education has put the goal of attending college or university further out of reach. It can be difficult to save when children are young, and students who receive financial assistance often find it difficult to repay their loans.

To help the next generation of Canadian students get the education and training they need to do well and help grow our economy, Budget 2019 proposes a number of measures to make college and university education more affordable and accessible, and give young Canadians access to the work experience they need to find and keep good, well-paying jobs for years to come.

Affordable and Accessible Education

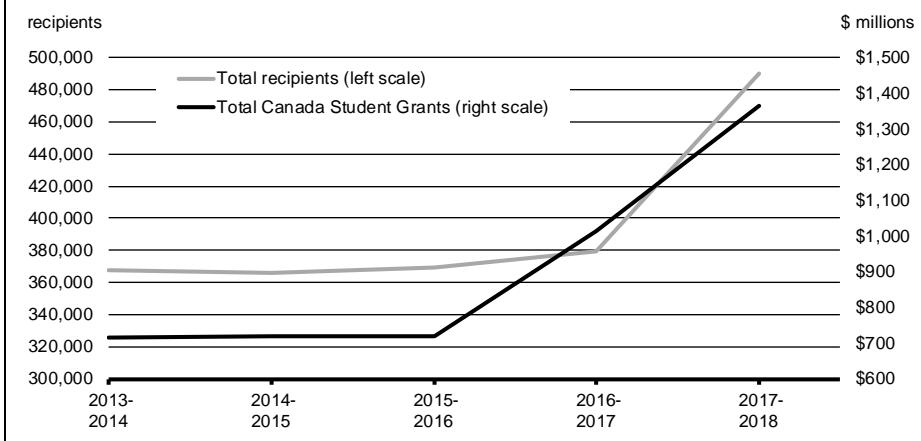
In the decades to come, young Canadians will be the ones who drive the future growth of Canada's economy. It's essential to our shared prosperity and continued quality of life that young people have access to high-quality education they can afford. For this reason, and because young Canadians deserve opportunities to grow, pursue meaningful careers and build rewarding lives of their own, the Government has taken decisive action to make post-secondary education more affordable for more young Canadians.

Helping With the High Cost of Post-Secondary Education

As an important first step toward helping young Canadians succeed, Budget 2016 used the savings realized from the elimination of the Education and Textbook Tax Credits to increase Canada Student Grants amounts by 50 per cent for students from low- and middle-income families. Budget 2016 also expanded Canada Student Grant eligibility criteria, making it possible for more students to receive non-repayable assistance.

Together, these changes helped more than 490,000 students receive an average of over \$2,800 each in support from the Canada Student Grants program in the 2017-18 school year.

Chart 1.4

Total Canada Student Grants Disbursed and Recipients Since 2013–14

Looking ahead, Budget 2019 is doing even more to help make post-secondary education more affordable, and make student debt more manageable.

Making Canada Student Loans More Affordable

Despite the progress made since Budget 2016—which introduced changes so that no student has to repay their Canada Student Loans until they are earning at least \$25,000 per year—many Canadian students still struggle to save for their education or repay student loans. This means difficult choices for many young people, who may leave school prematurely or put off life decisions like starting a family, or buying a home.

Lower Interest Rates

To help more students better manage the mounting pressure of higher living costs and the changing nature of work, and specifically to help make sure that student loans are more affordable for the students who need them, Budget 2019 proposes the following changes to Canada Student Loans and Canada Apprentice Loans:

- Lower the floating interest rate—the rate chosen by approximately 99 per cent of Canada Student Loans borrowers—to prime, from its current rate of prime plus 2.5 percentage points, starting in 2019–20.
- Lower the fixed interest rate to prime plus 2.0 percentage points, from its current rate of prime plus 5.0 percentage points, starting in 2019–20.

New Interest-Free Grace Period

■ In addition, Budget 2019 proposes to amend the *Canada Student Financial Assistance Act*, so that student loans will not accumulate any interest during the six-month non-repayment period (the “grace period”) after a student loan borrower leaves school.

Lowering the interest rate and making the grace period interest-free will make post-secondary education more affordable and help students transition to the labour market successfully after leaving school. As a result of these changes the average borrower will save approximately \$2,000 over the lifetime of their loan. Approximately 1 million student loan borrowers currently in repayment, and 200,000 graduates who leave school each year, will benefit from these changes.

Lowering the interest rate on Canada Student Loans and making the grace period interest-free will help approximately 1 million student loan borrowers currently in repayment, including **Angela**, who recently graduated from university with a bachelor’s degree in psychology. After a five-month job search, she secured a position at a medium-sized consumer goods company. Budget 2019’s proposal to make the grace period interest-free means Angela does not need to worry about accumulating further debt as she takes the time to transition from school to work. In addition, the new lower interest rate on Canada Student Loans will make Angela’s \$13,500 debt significantly easier to manage, saving her approximately \$2,000 in interest payments over the 9.5-year repayment period for her loan.

Making Canada Student Loans More Accessible

The Canada Student Loans Program helps to make post-secondary education affordable for hundreds of thousands of students every year, but a small number of outdated program rules and restrictions make the Program less flexible and less accessible for some.

■ To better respond to the needs of vulnerable student loan borrowers, including those facing challenging life or financial circumstances, Budget 2019 proposes to invest \$15.0 million over five years, starting in 2019–20, to modernize the Canada Student Loans Program.

For student borrowers with disabilities, these changes would:

- Increase the cap on the Canada Student Grant for Services and Equipment for Students with Permanent Disabilities from \$8,000 to \$20,000 per year, to help students with permanent disabilities afford the necessary services and equipment for their studies.
- Expand eligibility for the Severe Permanent Disability Benefit so that more student borrowers with severe permanent disabilities can qualify for loan forgiveness.

- Make it easier for students with permanent disabilities to return to school after a long absence by removing the restriction that borrowers using the Repayment Assistance Plan for Borrowers with a Permanent Disability who have been out of study for five years cannot receive further loans and grants until their outstanding loans are paid in full, starting in 2020–21.

For student borrowers in other vulnerable financial or life situations, these changes would:

- Increase the eligibility for loan rehabilitation after a borrower defaults on their student loan, so that financially vulnerable borrowers in default can access supports such as the Repayment Assistance Plan and begin making affordable payments on their outstanding debt again.

 Implement interest-free and payment-free leave in six-month stackable periods, for a maximum of 18 months, for borrowers taking temporary leave from their studies for medical or parental reasons, including mental health leave. Budget 2019 also proposes to increase compensation to provinces and territories—partners in the Canada Student Loans Program—by \$20.0 million over five years, starting in 2019–20, with \$4.0 million per year ongoing. This increased funding will compensate provinces and territories for their costs stemming from Budget 2019’s proposed changes to improve the accessibility of student financial assistance.

Enhancing Supports for Apprenticeship

Skilled trades people are in high demand. These fields offer well-paid and valuable employment opportunities for those who wish to pursue them. To encourage people to explore careers in the skilled trades, the Government has made significant investments in apprenticeship programs that support a skilled, mobile and certified skilled trades workforce, and works closely with provincial/territorial partners and stakeholders to support high-quality apprenticeship systems across Canada. Many of these investments are now delivering results.

For example, through the Union Training and Innovation Program, launched in 2017, the Government is helping individuals get the training they need to succeed in the skilled trades, by supporting the purchase of up-to-date training equipment and innovative approaches to reduce barriers limiting apprenticeship outcomes. Since its launch, the program is helping Canadians by:

- Leveraging over \$23 million in investments through cost-shared purchases of advanced training equipment and funding for innovative approaches to apprenticeship training.
- Targeting training supports to over 28,000 Canadians.
- Helping vulnerable Canadians—women, Indigenous Peoples, persons with disabilities and newcomers to Canada make up 40 per cent of project participants.
- Helping improve accessibility to training in remote communities through e-learning platforms and mobile training units.

- To encourage more young people to consider training and work in the skilled trades, the Government proposes to provide Skills Canada—a national organization dedicated to encouraging young people to consider careers in the skilled trades and technology—with \$40 million over four years, starting in 2020–21, and \$10 million per year ongoing. This investment will enable Skills Canada to continue to encourage and support a coordinated approach to promoting skilled trades and technologies to young people through skills competitions and by providing resources to better equip them for careers in the skilled trades.
- To bolster these efforts, the Government also proposes to invest \$6 million over two years, starting in 2019–20, to create a national campaign to promote the skilled trades as a first-choice career for young people. The campaign will work to change the perception around careers in the skilled trades, promoting their merits, including high demand, high wages, and continual professional development. In 2019, the Government will appoint co-chairs to begin work on this campaign, lead initial consultations, and explore partnerships to assist with promotion of the skilled trades.

Budget 2019 also proposes to develop a new strategy to support apprentices and those employed in the skilled trades. This Apprenticeship Strategy will ensure that existing supports and programs—including the Apprenticeship Incentive and Completion Grants—address the barriers to entry and progression for those who want to work in the skilled trades in the most effective way, and support employers who face challenges in hiring and retaining apprentices.

Paid Parental Leave for Student Researchers

Budget 2018 provided historic new funding to reinvigorate Canada’s research system, including the single largest investment in fundamental science in Canadian history. It also committed to ensuring that Canada’s next generation of researchers—including students, trainees and early-career researchers—is more diverse.

To allow them to focus fully on their research, students receiving federal research grants or scholarships may not be participating in the traditional labour market. As there is no typical employer-employee relationship, student researchers are unable to take advantage of parental leave benefits offered under the Employment Insurance program.

- To further improve equity, diversity and inclusion in the research system, Budget 2019 proposes to provide a total of \$37.4 million over five years, starting in 2019–20, and \$8.6 million per year ongoing, to the federal granting councils, to expand parental leave coverage from six months to 12 months for students and postdoctoral fellows who receive granting council funding. This investment will help young researchers, especially women. It will also help parents better balance work obligations with family responsibilities, such as child care.

Supporting Graduate Students Through Research Scholarships

In addition to student loans and grants, the Government offers a suite of scholarships that make higher education more accessible for students seeking to pursue graduate studies and develop the research skills needed in the knowledge-based economy. As the recipients of these scholarships train at universities and research hospitals and transition to the workforce, they bring new ideas and perspectives to tackle some of the world's biggest challenges.

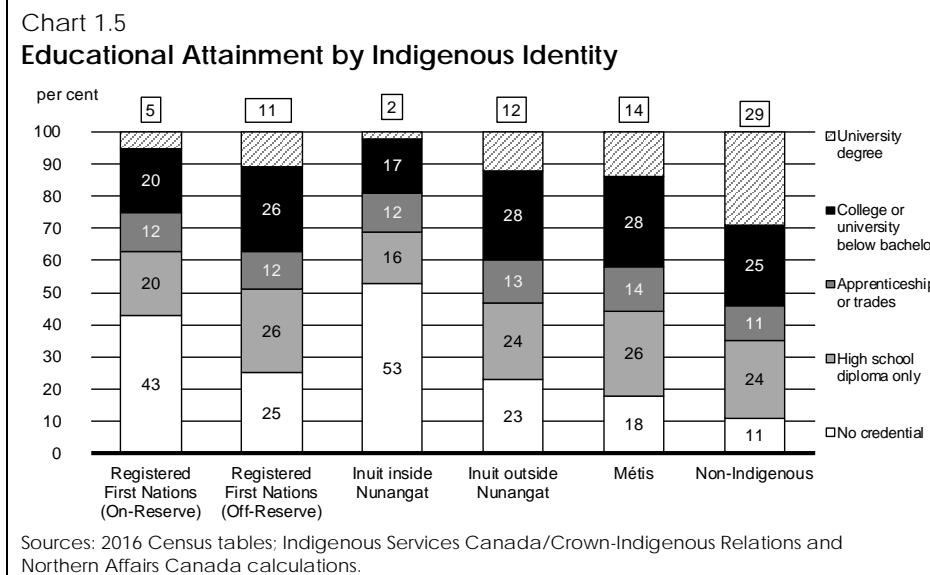
 To help more students access graduate studies, Budget 2019 proposes to provide \$114 million over five years, starting in 2019–20, with \$26.5 million per year ongoing, to the federal granting councils—the Natural Sciences and Engineering Research Council, the Canadian Institutes of Health Research and the Social Sciences and Humanities Research Council—to create 500 more master's level scholarship awards annually and 167 more three-year doctoral scholarship awards annually through the Canada Graduate Scholarship program.

In addition, starting in 2019–20, the federal government will work collaboratively with willing provincial and territorial partners on options to improve access to financial supports for graduate students from low-income families. Increased participation in post-secondary education will help vulnerable graduate students have higher earnings and get good-quality jobs, and helps the economy be more productive.

Supporting Indigenous Post-Secondary Education

Indigenous Peoples are among the youngest and fastest-growing segments of the Canadian population, yet they continue to face barriers when it comes to pursuing post-secondary education and finding good, well-paying work. Engaging more Indigenous People in the workforce would boost economic outcomes for the nearly 1.5 million Indigenous Canadians as well as spur economic opportunities and raise living standards for all Canadians, potentially adding \$7 billion to gross domestic product. More than two-thirds of Canadian jobs from now to 2024 are expected to require some form of post-secondary education, yet Indigenous Peoples are less likely to access and complete post-secondary education. Indigenous Peoples in the core working population are, on average, 18 percentage points less likely than their non-Indigenous counterparts to hold a university certificate, diploma or degree at the bachelor level or above.

The proposed investments in Budget 2019 will help Indigenous Peoples obtain the skills and experiences they need to succeed in a changing economy and contribute to stronger economic growth for all Canadians.



■ Budget 2019 proposes a number of investments, starting in 2019–20, to ensure that Indigenous students have better access to post-secondary education, and more support to ensure that they can succeed during their studies. This includes support for:

- First Nations communities by investing \$327.5 million over five years to renew and expand funding for the Post-Secondary Student Support Program while the Government engages with First Nations on the development of long-term First Nations-led post-secondary education models.
- An Inuit-led post-secondary education strategy through an investment of \$125.5 million over ten years, and \$21.8 million per year ongoing.
- A Métis Nation-led post-secondary education strategy consisting of financial assistance for Métis Nations students through an investment of \$362.0 million over ten years, and \$40.0 million per year ongoing.

■ To further support Indigenous students, Budget 2019 proposes to provide Indspire with \$9.0 million over three years, starting in 2019–20, for additional bursaries and scholarships for First Nations, Inuit and Métis students. Indspire is an Indigenous-led registered charitable organization with a proven track record of helping Indigenous students attend post-secondary institutions and find good jobs.

Finally, to help Indigenous students access the full range of available student supports, including financial assistance programs such as Canada Student Grants, the Government will engage Indigenous Peoples to ensure that these programs are working for them.

Skills for Canada and the World

Young people recognize that not all skills are learned in the classroom. Increasingly, students and recent graduates are taking advantage of co-op programs and other experiential learning opportunities—such as work placements with local employers or service opportunities within their communities—as a way to further what they have learned in school while earning valuable work experience. The Government supports this comprehensive approach to learning and is investing to help more young people get the skills that will make Canada—and the world—a better place.

Expanding the Canada Service Corps

Service opportunities give young Canadians the chance to gain valuable work and life experience, build on what they've learned through their formal education, and give back to their communities in meaningful ways.

To encourage and support more service, in January 2018, the Government launched the design phase of the **Canada Service Corps**, a youth service initiative. Since that time, the Government has been meeting with and listening to young people—from across the country and from different backgrounds and circumstances—to better understand what service means to them.

Like young people, the Government believes that every young person who wants to build a better Canada through volunteer service should have the opportunity to do so.

 Based on the extensive consultations and feedback received to date, Budget 2019 proposes to invest up to an additional \$314.8 million over five years, starting in 2019–20, with \$83.8 million per year ongoing, to make the Canada Service Corps Canada’s signature national youth service program. This investment will support:

- Up to 15,000 annual volunteer service placements with national, regional and local partner organizations by 2023–24.
- 1,000 annual individual grants for self-directed service projects.
- New incentives and program supports co-created with young people to address barriers to participation in volunteer service programs.
- A new digital platform—seamlessly integrated with the Government’s new Youth Digital Gateway, an online, user-friendly platform to help youth access federal supports—that allows young people to identify, manage and share experiences from their service placements.

Kayla has just graduated from high school and hopes to complete a service experience related to her passion for environmental protection before pursuing post-secondary studies. Budget 2019’s new funding for the Canada Service Corps (CSC) means Kayla can use the Youth Digital Gateway to find an experience that is both relevant to her interests and flexible enough to align with her schedule.

Over the next six months, Kayla completes a CSC-sponsored service placement related to ocean conservation that allows her to contribute to her community and improves her ability to speak in public and work collaboratively, leading a small team of her peers. This placement inspires Kayla to continue volunteering with environmental organizations and provides her with skills and experience that will aid her in her studies and subsequent job search.

Giving Young Canadians Digital Skills

Canadians are living and working in an increasingly digital world. With more opportunities to acquire and develop digital skills, young Canadians—from kindergarten to grade 12—will have a head start in building the skills they will need to find and keep good, in-demand jobs. The CanCode program helps young people get these coding and digital skills, with training support for their teachers and a special focus on reaching young people who are traditionally underrepresented in Science, Technology, Engineering and Mathematics, such as girls and Indigenous youth. In its first two years, CanCode has provided more than 800,000 K-12 students and about 40,000 teachers with the chance to learn these important skills.

 To give even more young people opportunities to get the digital skills that will help them succeed, Budget 2019 proposes to provide \$60 million over two years, starting in 2019–20, to support CanCode’s ongoing work and help one million more young Canadians gain new digital skills.

Modernizing the Youth Employment Strategy

Young Canadians are talented, ambitious and hard-working, but making the transitions from school to the workforce can be challenging for many—especially for vulnerable youth who face additional barriers to success, such as low-income youth, Indigenous youth, racialized youth and youth with disabilities.

Since 1997, the **Youth Employment Strategy** has helped young people make the transition from school to work, and get a strong start in their careers. At the same time, as noted by the Expert Panel on Youth Employment, the Strategy is in need of an update, to ensure that it is able to continue to meet the needs of young people in the future.

 Budget 2019 proposes to invest an additional \$49.5 million over five years, starting in 2019–20, to launch a modernized Youth Employment Strategy informed by the recommendations of the Expert Panel on Youth Employment and extensive engagement with youth, service delivery organizations and other stakeholders.

The modernized Youth Employment Strategy will embrace a “no wrong door” approach with the aim of ensuring that all young people have access to the supports they need, including enhanced supports for young people facing more serious barriers to joining and staying in the workforce.

This investment will support work placements, build partnerships with stakeholders, test pilot programs for hiring youth and improve program evaluation. It will also support the ongoing development of the **Youth Digital Gateway**—an online, interactive, user-friendly platform to help youth access federal supports, that is focused on outcome-based results.

Canada’s New International Education Strategy

Canada’s post-secondary education system is world-renowned for the quality of its institutions and the high performance of its students. However, in an increasingly global economy and labour market, Canadian youth need to develop a range of skills. These include adaptability, fluency in more than one or two languages and inter-cultural skills—skills that are best fostered through international experiences, such as travelling, studying and working overseas.

 Building on the commitment in the 2018 *Fall Economic Statement* to develop a new International Education Strategy, the Government proposes to invest \$147.9 million over five years, starting in 2019–20, and \$8.0 million per year ongoing. These funds will be used for:

- **International work/study opportunities**—To help Canadian post-secondary students gain the skills needed to succeed in a global economy, the Government proposes to develop an outbound student mobility program, on a pilot basis; and,
- **Promotion of the merits of Canadian education**—To ensure that top-tier foreign students continue to choose Canada as their education destination of choice, the Government proposes to invest to promote Canadian educational institutions as high-calibre places to study.

This new Strategy will be delivered in coordination with provinces and territories, as well as colleges, polytechnics and university educational institutions and other key partners.

On-the-Job Learning and Work Experience

"When it comes to getting good jobs and work experience, there's a familiar refrain among young people. (They) tell me that they can't get a job because they don't have any work experience, and they can't get any work experience because they don't have a job. It's a vicious circle. (Our) government is taking steps to help break it."

— Prime Minister Justin Trudeau,
April 19, 2016

On-the-job or work-integrated learning gives young people the opportunity to gain relevant, real-world work experience while they are still in school. It's a chance to apply what they've learned in the classroom, and a way to help build a stronger understanding of the skills and knowledge they will need to succeed in the workforce once they graduate.

Work-integrated learning can take many forms. For thousands of Canadian college, university and polytechnic students, formal co-op programs help to bring together academic learning and applied work experience. These work placements can also include internships, mentorship programs or applied research projects. What is common among them all, and what is so valuable, is the connection—between a student who needs relevant work experience and an employer looking to benefit from the talent, new ideas and hard work that young people can bring to the workplace.

Because young Canadians deserve every opportunity to study, work, and help contribute to our economy and their own future success, Budget 2019 proposes to set an ambitious target: **that within 10 years, the Government will strive to ensure that every young Canadian who wants a work-integrated learning opportunity should get one.**

Yasmin is an undergraduate student studying English literature at a Toronto-based university. Thanks to the expanded Student Work Placement Program, Yasmin was able to apply to more co-op jobs through her university and was successfully hired into a work placement at Raher Enterprises, an engineering company in Montréal.

Yasmin's work placement—made possible by the partial wage subsidy Raher Enterprises received from the Government—gave her valuable work experience, and her strong writing skills helped her employer meet several urgent client deadlines. She looks forward to accepting Raher's offer to join the company as a full-time technical writer after she graduates.

Expanding the Student Work Placement Program

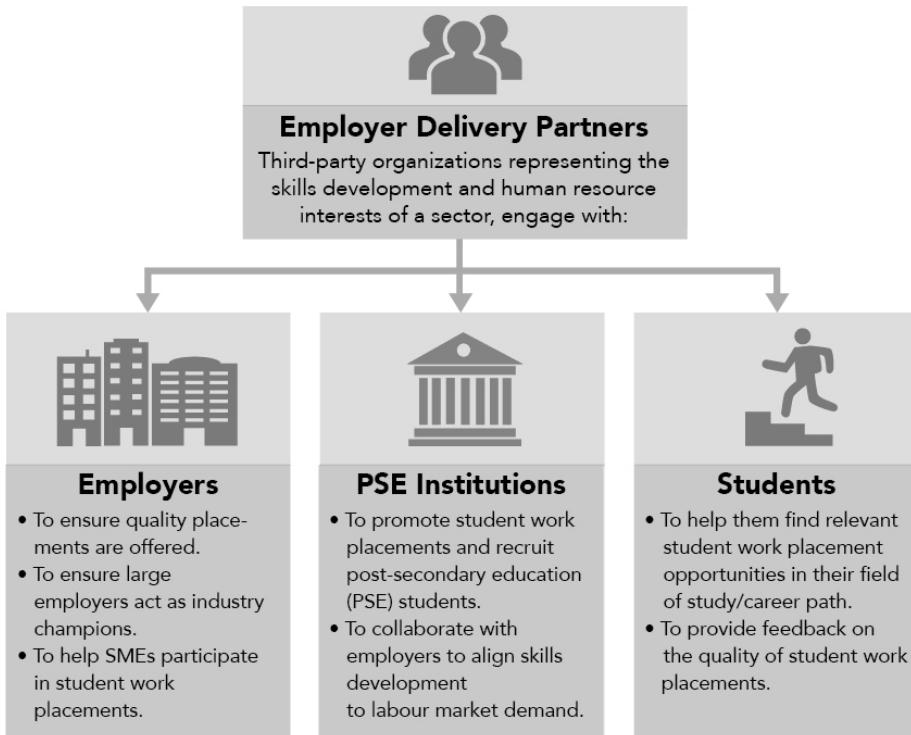
Every year, Canada's Student Work Placement Program gives thousands of post-secondary students in science, technology, engineering, math (STEM) programs, as well as business programs, the opportunity to gain paid work experience related to their field of study.

- 💻 Based on the program's strong track record of success, Budget 2019 proposes to expand the Student Work Placement Program to give students in fields outside of STEM—such as the arts, humanities and social sciences—access to work-integrated learning opportunities. Budget 2019 proposes to invest \$631.2 million over five years, starting in 2019–20, to support up to 20,000 new work placements per year for post-secondary students across Canada, in all disciplines, by 2021–22.
- 💻 In addition, Budget 2019 proposes to provide Employment and Social Development Canada with an additional \$150.0 million over four years, starting in 2020–21, to create partnerships with innovative businesses to create up to a further 20,000 work-integrated learning opportunities per year. Together, these efforts will, over time, help create 40,000 work placements for Canadian students by 2023–24.

What the Student Work Placement Program Delivers

Benefits for Students:	Benefits for Employers:
<ul style="list-style-type: none">• Acquire different knowledge, hard skills and soft skills.• Gain valuable work experience necessary to begin professional career.• Link classroom learning with the workplace.• Widen professional network and get paid.	<ul style="list-style-type: none">• Short- and long-term solutions to address labour shortages.• Easy access to talent pipeline of qualified candidates with a variety of skills and technical knowledge.• Easier and more affordable hiring choice for small and medium-sized enterprises (SMEs).• Partial hiring wage subsidy from Government.

Figure 1.5: Delivery Approach of the Student Work Placement Program



Tom is the co-founder of an educational software start-up based in Vancouver.

By participating in the Student Work Placement Program, Tom is able to bypass many of the hurdles of the typical recruiting process, giving him more time to focus on the day-to-day challenges of managing a new business. Thanks to the Program, he was able to find and hire Isabel, a graphic design major, and Mackenzie, a computer science student, for paid summer internships in areas relevant to their fields of study.

The internships give Isabel and Mackenzie a chance to earn a good income over the summer, practice their design and coding skills in a real-world setting, and make professional connections. With a positive experience and a growing business, Tom looks forward to hiring four summer students next year.

In addition, as a signal of how valuable the Student Work Placement program is for employers, the Business/Higher Education Roundtable has committed to match these placements, creating an additional 44,000 work-integrated learning placements and opportunities per year by 2021. The Business/Higher Education Roundtable will act as a convener to bring together other partners, such as post-secondary education institutions, non-governmental organizations, and other orders of government to help meet this target.

 To support these efforts, Budget 2019 proposes to provide the Business/Higher Education Roundtable with up to \$17 million over three years, starting in 2019–20, to help forge these partnerships and create more work-integrated learning opportunities for young Canadians.

In total, Budget 2019 sets a target of creating 84,000 new student work placements across Canada by 2023–24. This will mark a significant step to closing the gap between the number of young people who want a student work placement and the number currently able to secure one, estimated at 150,000 placements per year.

What Is the Business/Higher Education Roundtable?

The Business/Higher Education Roundtable represents some of Canada's largest companies and leading post-secondary institutions. Launched in 2015, the organization works to support young Canadians as they transition from education to the workplace, deepen collaboration between industry and educational institutions, and help Canadian employers and workers adapt to the economy of the future.

Real-Life Testimonials From the Student Work Placement Program

"Being a part of the Student Work Placement Program has provided me with the opportunity to gain hands-on experience from industry professionals and exposure to the dynamic work structure that comes with being a part of a tech start-up. Overall, I believe that this program helps build both technical and soft skills that cannot be learned in a classroom and allows young professionals grow their talents as they get ready to graduate from post-secondary schooling."

—Student Participant, MaRs

"Brains Adventure is a small software company focusing on bringing next-level technology adaptation to businesses and improving their day-to-day operation. For us, it would have been a huge risk to hire our first full timer on our own. A risk big enough that we couldn't have probably taken it until next year. With career ready program not only we were able to take the mitigated risk, but we were also connected to Algonquin College and Carleton University. The connections made it possible for us to start a collaborative AI project with Carleton University, something that goes well beyond the initial scope of this subsidy program. The founders of our company strongly recommend such programs and their extension because the added value chain they create for students, small companies and academy."

—Employer Participant, Information Technology Association of Canada

"Smaller biotech companies are often reluctant to invest in training students with no work experience. Giving students the opportunity to get hands-on experience while finishing their studies will strengthen Canada's bio-economy by bridging the gap between industry and academia."

—Rob Henderson, President and CEO of BioTalent Canada

Part 3: Moving Forward on Implementing National Pharmacare

Canadians are proud of our publicly funded universal health care system, which provides high-quality care based on need and not on a person's ability to pay.

Yet, when it comes to prescription drugs, Canadians do not have consistent coverage and face some of the highest costs in the world. Many middle class Canadians—and in particular those in the working poor—cannot afford the prescription drugs they need. Every year, nearly one million Canadians give up food and heat so that they can afford medicines.

When people can't afford their medications, they are less healthy and less able to contribute in their families, in their jobs, and in their communities. When prescription drugs are unaffordable, it leads to higher health care costs for all Canadians.

It is time for prescription drugs to be affordable for all Canadians. Budget 2019 starts us down that road.

Figure 1.6: Key Objectives for National Pharmacare



Advisory Council on the Implementation of National Pharmacare

In Budget 2018, the Government announced the creation of the Advisory Council on the Implementation of National Pharmacare, to begin a national dialogue and recommend ways for the Government to move ahead with a national pharmacare program.

Over the past year, the Advisory Council has undertaken extensive consultations with Canadians from coast to coast to coast on how best to ensure that all Canadians have affordable access to the medicines they need. The Government is committed to finding a way forward in partnership with patients, health care providers, provinces, territories, First Nations, Inuit, the Métis Nation, industry, employers, labour and other stakeholders. Its focus will be squarely on two key challenges—lowering the cost of drugs for all Canadians and expanding coverage so all Canadians have access to affordable medicine.

While the Government awaits the Advisory Council's final report, the Government is prepared to take initial steps based on the Advisory Council's consultations and interim report, released earlier this month. Budget 2019 announces the Government's intention to work with its partners to move forward on three foundational elements of national pharmacare:

- 1) The creation of the **Canadian Drug Agency**, a new national drug agency that will build on existing provincial and territorial successes and take a coordinated approach to assessing effectiveness and negotiating prescription drug prices on behalf of Canadians. By negotiating better prices, this could help lower the cost of drugs for Canadians by up to \$3 billion per year in the long term.
- 2) In partnership with provinces, territories and stakeholders, part of the Agency's work will be taking steps toward the **development of a national formulary**—a comprehensive, evidence-based list of prescribed drugs. This would provide the basis for a consistent approach to formulary listing and patient access across the country.
- 3) A **national strategy for high-cost drugs for rare diseases** to help Canadians get better access to the effective treatments they need. Working with provinces, territories, and other partners, the Government will co-develop a plan to ensure that patients with rare diseases have better and more consistent coverage for their treatments, which are often life-saving. This is an important first step in expanding drug coverage through federal support.

Consulting With Canadians: Finding a Way Forward on National Pharmacare

In Budget 2018, the Government of Canada announced the creation of the Advisory Council on the Implementation of National Pharmacare, led by Dr. Eric Hoskins.

The Council has concluded an extensive national dialogue with Canadians. It held 16 regional roundtables, numerous meetings with stakeholders, and bilateral meetings with every provincial and territorial government. In addition, the Council received more than 150 written submissions and 15,000 responses to an online questionnaire.

These consultations confirmed that:

- **Canadians** support improving drug coverage in order to make coverage more accessible and affordable for all Canadians.
- **Patient groups** want a fairer system of drug coverage that preserves timely patient access to promising therapies, as well as patient choice.
- **Health professionals** desire a system that provides affordable access to medications for all Canadians and improves the management of medication and health services.
- **Provincial and territorial governments** are focused on improving access by removing cost barriers. They view the federal government as an important partner in ensuring the long-term sustainability of the drug plans they provide.
- **First Nations, Inuit and Métis Nation leaders** support efforts to address gaps in prescription drug coverage, in a way that supports self-determination and better health outcomes for Indigenous Peoples.
- **Employers** indicate that private drug plans are an important tool to attract employees and promote workplace health and productivity; however, they are concerned about high-cost drugs and the sustainability of their plans.
- **Labour groups** generally support efforts to implement a universal, single-payer pharmacare program that ensures all Canadians have access to prescription medications, regardless of their income, age or where they work or live.
- **Private insurance companies** are also concerned about high-cost drugs and the sustainability of drug plans.

The Advisory Council has published its interim report, which contains recommendations for improving the affordability of prescription drugs by improving the coordination between drug plans in Canada. The Advisory Council's final report, which will address the issue of access to drug coverage, is expected this spring. The Advisory Council's final report will be made public and tabled in the House of Commons.

Introducing the Canadian Drug Agency

Canadians pay some of the highest prices in the world for prescription drugs. Brand-name medicines cost, on average, 20 per cent more in Canada than they do in other advanced economies—making paying for prescription drugs difficult for some families.

New pharmaceuticals and biologic therapies—which can help many people in need of innovative treatments—are welcome developments. At the same time, they can come with unprecedented prices. Many prescription drugs in Canada now cost more than \$10,000 per year, per patient.

Figure 1.7: High-Cost Medicines in Canada

Between 2006 and 2017 the number of patented medicines in Canada with an annual average treatment cost of



and now accounts for over **40%** of patented medicine sales as compared to **7.6%** in 2006.

As a result, prescription drug spending in Canada has risen dramatically over the last three decades—from \$2.6 billion in 1985 to \$33.7 billion in 2018. Canada’s current patchwork of drug coverage—which includes more than 100 public programs and 100,000 private insurance plans—is not well equipped to handle the increasingly expensive drugs now coming to market. Absorbing these rising costs is difficult for individual Canadians and their families—and poses challenges to the long-term sustainability of government- and employer-sponsored drug plans.

 To help make prescription drugs more affordable for more Canadians, the Government proposes to work with provinces, territories, and stakeholders to create the Canadian Drug Agency.

The Agency would:

- Assess the effectiveness of new prescription drugs.
- Negotiate drug prices on behalf of Canada’s drug plans.
- Recommend which drugs represent the best value-for-money for Canadians, and in cooperation with provinces, territories and other partners, identify which drugs could form the basis of a future **national formulary**.

The Agency would be able to provide impartial and independent advice. For the first time in Canada, drug evaluation and price negotiation could be carried out by a single entity—resulting in lower prescription drug prices for Canadians and their families. The Agency would build on the important work of the Canadian Agency for Drugs and Technologies in Health and the Institut national d'excellence en santé et en services sociaux that provide expert advice to public drug plans on the effectiveness of prescription drugs, as well as the pan-Canadian Pharmaceutical Alliance, which negotiates prices for prescription drugs on behalf of public drug plans.

Creating the Canadian Drug Agency would help ensure the sustainability of drug coverage in Canada. By acting as a single evaluator and negotiator on behalf of Canada's drug plans, the proposed agency could reduce drug spending by billions of dollars per year, compared to baseline projections, within ten years of implementation.

Over the coming months, the Government will work with provinces and territories, and other partners, to develop a vision and mandate for such an agency.

 Budget 2019 proposes to provide Health Canada with \$35 million over four years, starting in 2019–20, to establish a Canadian Drug Agency Transition Office to support the development of this vision.

While the proposed Canadian Drug Agency would be a powerful tool for addressing the rising cost of prescription drugs and harmonizing what drugs are covered across Canada, the Government is also committed to tackling the challenge presented by inadequate and inconsistent coverage for Canadians. The Government is committed to ensuring all Canadians have access to affordable medicine, and looks forward to receiving the Advisory Council's final report this spring.

Making High-Cost Drugs for Rare Diseases More Accessible

For many Canadians who require prescription drugs to treat rare diseases, the cost of these necessary medications can be astronomically high. This can create significant financial and emotional distress for these patients, and for their loved ones. The list prices for these drugs often exceed \$100,000 per patient each year and sometimes significantly more. As new therapies enter the market, worldwide sales of high-cost drugs for rare diseases are forecast to grow at twice the rate of other drugs.

What Is a Rare Disease?

Rare diseases are life-threatening, debilitating or serious, and chronic conditions affecting a small number of patients. Many rare diseases predominantly affect children, as they are often genetically based and appear at birth or in early childhood. According to the Canadian Organization for Rare Disorders, more than 7,000 rare diseases have been identified to date, although each one affects a relatively small number of patients.

In their reports, the House of Commons Standing Committee on Health and the Advisory Council on the Implementation of National Pharmacare highlighted the unique challenges of high-cost drugs for rare diseases as an area of acute need. Special consideration is required to ensure a nationally consistent approach for these medications.

The high cost of many drugs for rare diseases and the fact that clinical evidence is often limited because of small patient populations make it difficult for patients and their families, employers, and governments to make decisions on whether and how to pay for treatments. This can lead to challenges for many provinces and territories looking to help families. A national strategy—one that includes the proposed Canadian Drug Agency—could ensure more effective assessments of a drug's efficacy, better manage costs and, where appropriate, expand coverage.

 The Government proposes to work with provinces, territories and stakeholders to establish a national strategy for high-cost drugs for rare diseases. Budget 2019 proposes to invest up to \$1 billion over two years, starting in 2022–23, with up to \$500 million per year ongoing, to help Canadians with rare diseases access the drugs they need.

Guided by the upcoming final report from the Advisory Council on the Implementation of National Pharmacare, the Government intends to partner with provincial and territorial governments to build a coordinated strategy for gathering and evaluating evidence on high-cost drugs for rare diseases, improve the consistency of decision-making and access across the country, negotiate prices with drug manufacturers, and ensure that effective treatments reach the patients who need them.

Part 4: A Secure Retirement

All Canadians deserve a secure and dignified retirement, free of financial worries. For many people in the middle class as well as people working hard to join it, Canada's public pensions—including the Old Age Security (OAS) program and the Canada and Quebec Pension Plans—provide confidence that they will be able to retire in dignity. The Government is committed to strengthening these public pensions, and to improving the quality of life for seniors now, and for generations to come.

Since 2016, the Government has taken concrete steps to improve Canadians' retirement security, by:

- Enhancing the Canada Pension Plan (CPP), which will raise the maximum CPP retirement benefit by up to 50 per cent over time;
- Restoring the eligibility age for OAS and GIS benefits to 65, putting thousands of dollars back in the pockets of Canadians as they become seniors;
- Increasing Guaranteed Income Supplement (GIS) top up payments by up to \$947 per year for single seniors, which boosted benefits for nearly 900,000 low-income seniors and lifted about 57,000 seniors out of poverty; and
- Introducing legislative changes so that couples who receive GIS and Allowance benefits and have to live apart for reasons beyond their control, can receive higher benefits based on their individual incomes (the Allowance is available to certain individuals age 60–64 who are spouses/common-law partners of someone eligible to receive GIS, while the Allowance for the Survivor is available to certain 60–64 year olds who are widows/widowers).

Higher Benefits for Low-Income Single Seniors

Zofia is a 72-year-old resident of Brandon, Manitoba. Active and independent, she continues to live alone, but has no other monthly income apart from OAS and GIS benefits. The increase in the GIS top-up benefit for single seniors introduced in Budget 2016 gives Zofia an additional \$947 per year.

"We have taken concrete action to strengthen public pensions, notably by restoring the age of eligibility for the Old Age Security pension and the Guaranteed Income Supplement (GIS) to 65 and by increasing the GIS for the most vulnerable single seniors."

— The Honourable Filomena Tassi, Minister of Seniors

Increased Benefits for Older Canadians Forced to Live Apart

Anna and Leo, aged 62 and 77, have been married for 40 years. Leo requires long-term care and so they must live apart in their hometown of Thunder Bay, Ontario. Leo receives \$3,000 in Canada Pension Plan benefits and used to receive OAS and GIS benefits of more than \$12,500. Anna earns \$6,000 per year from part-time work and would have received over \$5,800 in Allowance benefits. Taken together, the Old Age Security program would have provided the two with over \$18,300 in annual income support.

With the changes introduced in Budget 2016, Leo now receives more than \$14,300 in OAS and GIS benefits, and Anna receives about \$8,300 in Allowance benefits. Taken together, the enhanced Old Age Security program now provides Anna and Leo with annual income support of about \$22,600—more than \$4,000 more than they were entitled to before.

A Better Quality of Life for Canada's Seniors

Canada's seniors have worked hard to support their families, build strong communities, and help grow our economy. While many look forward to closing the chapter on their working lives, for some—especially low-income seniors—retirement can be a daunting prospect, with the potential for financial insecurity and feelings of isolation. Budget 2019 proposes a series of measures to help Canada's seniors keep more money in their pockets, receive the Canada Pension Plan benefits they are entitled to, and stay active and involved in their communities.

Improving the Economic Security of Low-Income Seniors

Over the course of their lives, seniors have made tremendous contributions to communities all across Canada—and have a wealth of knowledge, experiences, and skills that they can continue to contribute today. Many older Canadians want to stay active and involved in their communities, including through work.

Unfortunately, for some older low-income Canadians who wish to continue working, there can be financial barriers to doing so. This is especially true for low-income workers who face significant reductions in their Guaranteed Income Supplement (GIS) or Allowance benefits for every dollar they earn through work.

The GIS earnings exemption currently allows low-income seniors and their spouses to each earn up to \$3,500 per year in employment income without triggering a reduction in GIS or Allowance benefits. This amount has remained unchanged since 2008, and under the current rules, only up to \$3,500 of income earned as an employee can be exempted for the purpose of calculating benefits. This does not reflect the reality of today's labour market in which many seniors have self-employment income.

 To allow low-income older Canadians to effectively take home more money while they work, Budget 2019 proposes to introduce legislation that would enhance the GIS earnings exemption beginning with the July 2020 to July 2021 benefit year. The enhancement would:

- Extend eligibility for the earnings exemption to self-employment income.
- Provide a full or partial exemption on up to \$15,000 of annual employment and self-employment income for each GIS or Allowance recipient as well as their spouse, specifically by:
 - Increasing the amount of the full exemption from \$3,500 to \$5,000 per year for each GIS or Allowance recipient as well as their spouse;
 - Introducing a partial exemption of 50 per cent, to apply to up to \$10,000 of annual employment and self-employment income beyond the initial \$5,000 for each GIS or Allowance recipient as well as their spouse.

The Enhancement to the GIS Earnings Exemption Provides Increased Take-Home Pay for Low-Income Working Seniors

Eunice is 66 years old, has \$5,000 of CPP income and lives in Toronto. She loves vintage clothes and is considering part-time work at a vintage clothing store, where she would earn minimum wage.

Currently, Eunice would only get to keep about \$6,650 of her roughly \$14,600 from the part-time job, or 45 cents of every dollar earned after the GIS benefit clawback, federal and provincial taxes, tax credits and other benefits are taken into account.

With the proposed enhancement to the earnings exemption, Eunice's take-home pay would effectively increase to almost \$9,600, leaving her with nearly \$2,950 dollars more of her earnings to spend on things like healthy foods, a new bicycle and gifts for her grandchildren.

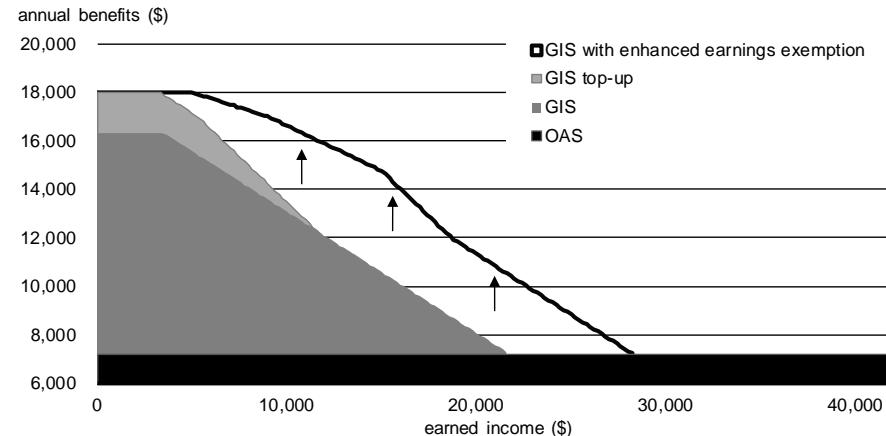
* Simplified example based on benefits received and taxes owed in calendar year 2019, assuming that earnings and pension income were the same in 2017 and 2018. In actuality, earnings in 2019 would impact GIS benefits received in the July 2020 to June 2021 benefit year.

It is estimated that improving the economic security of low-income seniors through the enhanced GIS earning exemption would cost approximately \$1.76 billion over four years.

As shown in Charts 1.6 and 1.7 low-income seniors will be able to keep more of their income from working in relation to GIS benefits after the enhancement to the earnings exemption. The gains would be relatively more pronounced for the self-employed, since they have no exemption under the current system, while those with employment income can currently exempt up to \$3,500.

Chart 1.6

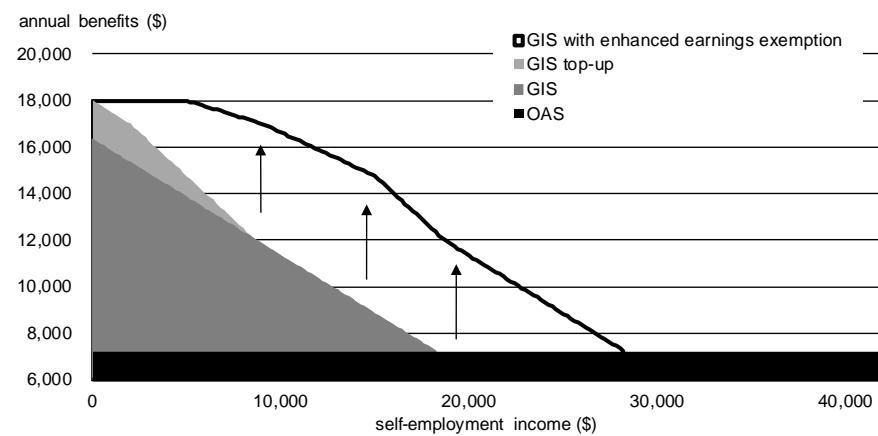
GIS Benefits for a Single Employed Senior Before and After the Enhancement of the GIS Earnings Exemption



Notes: Annual benefit amounts based on first quarter of 2019. Benefits in excess of \$6,000 of OAS shown. **Chart assumes no pension income other than earnings**, and earnings are net of CPP/EI contributions.

Chart 1.7

GIS Benefits for a Single Self-Employed Senior Before and After the Enhancement of the GIS Earnings Exemption



Notes: Annual benefit amounts based on first quarter of 2019. Benefits in excess of \$6,000 of OAS shown. **Chart assumes no pension income other than self-employment income**, and self-employment income is net of CPP/EI contributions.

Making Sure Everyone Who Is Eligible Receives Canada Pension Plan Benefits

The standard age to receive CPP benefits is 65, but some people may choose to delay the start of their pension benefits until age 70. For those who defer their start date, this provides a permanent increase in their pension amount.

A small number of Canadians, however, are currently missing out on receiving their CPP benefit because they applied for the benefit late, or not at all.

Typically, these are people who spent less time in the workforce during their working lives, which also means they are more likely to have low incomes in retirement.

 To ensure that all Canadian workers receive the full value of the benefits to which they contributed, the Government proposes to introduce legislative amendments to proactively enroll Canada Pension Plan contributors who are age 70 or older in 2020 but have not yet applied to receive their retirement benefit.

It is estimated that with this change, approximately 40,000 individuals over the age of 70 who are currently missing out would begin to receive an average monthly retirement pension of \$302 in 2020. In addition, approximately 1,500 Canadian seniors turning age 70 in 2020 will be proactively enrolled, receiving an estimated average monthly retirement pension of \$645. By 2040, as many as 4,000 people could be proactively enrolled each year.

Because some individuals may prefer not to receive a CPP retirement pension since it could reduce federal and provincial income-tested benefits, the Government also proposes to extend the period under which a person can choose not to receive a CPP retirement pension from six months to a year to ensure that no one is disadvantaged.

To cover the start-up costs of proactive enrollment, \$9.6 million would be sourced from the Canada Pension Plan Account.

Protecting Canadians' Pensions

In recent years, concerns have been raised about the security of some workplace pensions when the employer goes bankrupt. In response to these concerns, the Government committed in Budget 2018 to undertake a whole-of-government, evidence-based approach to improving retirement security for all Canadians. Consultations with workers, pensioners, companies, and the public at large resulted in the Government receiving more than 4,400 submissions on this important issue.

To ensure that Canadians can have greater peace of mind when it comes to their retirement, the Government proposes to introduce legislative amendments to the *Companies' Creditors Arrangement Act*, the *Bankruptcy and Insolvency Act*, the *Canada Business Corporations Act* and the *Pension Benefits Standards Act, 1985* to better protect workplace pensions in the event of corporate insolvency.

Budget 2019 proposes new measures that will make insolvency proceedings fairer, more transparent and more accessible for pensioners and workers. This will be accomplished in part by requiring everyone involved to act in good faith, and by giving courts greater ability to review payments made to executives in the lead up to insolvency.

At the same time, changes to corporate law will set higher expectations and better oversight of corporate behaviour. It will be made clear that federally incorporated businesses are able to consider diverse interests, such as those of workers and pensioners, in corporate decision making. In addition, publicly traded, federally incorporated firms will be required to disclose their policies pertaining to workers and pensioners and executive compensation, or explain why such policies are not in place. These firms will also be required to hold and disclose the results of non-binding shareholder votes on executive compensation.

The proposed pension measures will protect Canadians' hard-earned benefits by clarifying in federal pension law that if a plan is wound-up, it must still provide the same pension benefits as when it was ongoing. In addition, allowing defined benefit plans to fully transfer the responsibility to provide pensions to a regulated life insurance company through the purchase of annuities will improve plan sustainability and better protect retirees' pensions from the risk of employer insolvency. The Government will also continue to engage with Canadians on further ways to support the sustainability of defined benefit plans.

 In keeping with its evidence-based approach to policy development, Budget 2019 proposes to provide \$150,000 over three years to the National Pension Hub to support pension research focused on improving retirement savings outcomes for Canadians and developing solutions to pension challenges. Budget 2019 also proposes to provide \$12.5 million over ten years to the Global Risk Institute, founder of the National Pension Hub, to continue its work in developing new approaches to financial risk management.

Empowering Seniors in Their Communities

Far too many of our seniors face isolation in their retirement years, compounded in some cases by ageism, poor health, reduced mobility, poverty, and even abuse.

The New Horizons for Seniors program supports projects that improve the quality of life for seniors and promote their full participation in Canadian society. The program offers up to \$25,000 to support projects in local communities—such as new fitness equipment for seniors' centres—and up to \$5 million to support projects that are national in scope and that can benefit seniors across the country, like financial literacy classes.

 To improve seniors' quality of life, and to better promote seniors' participation and inclusion in their communities, Budget 2019 proposes to provide additional funding of \$100 million over five years, with \$20 million per year ongoing, for the New Horizons for Seniors Program.

New Horizons for Seniors Program Supports Important Community Projects Across Canada Delivered by Local Organizations:

Champagne and Aishihik First Nations in Yukon Territory was granted \$20,769 for capital improvements to their community kitchen so seniors can continue to prepare weekly lunches for other seniors and offer new programs for traditional food preparations.

Bangladesh Centre and Community Services in Toronto was granted \$24,456 for a project to support teaching seniors computer and social media skills. These skills will allow seniors to communicate with family and friends overseas, enabling increased social engagement and reduced isolation.

McLaren Housing Society in Vancouver was granted \$25,000 for their "out and about" program to reduce isolation and create opportunities for social interactions and activities. Volunteers organize activities and social events, creating a social network for residents and program participants.

These measures build on the Canada Pension Plan enhancement which will significantly improve the retirement income security of current and future Canadian workers when they retire.

The Canada Pension Plan: Retirement Security for Today and Tomorrow

Every Canadian deserves a secure retirement. The Canada Pension Plan (CPP), and the Quebec Pension Plan help to give Canadian seniors a reliable and stable source of income after they retire—giving them greater income security and peace of mind.

The Government is ensuring that the younger generations—today's workers and those joining the workforce in the future—will enjoy a secure retirement.

In June 2016, the Government reached an historic agreement with provinces to enhance the CPP. The CPP enhancement, which is being phased-in starting in 2019, will give Canadian workers greater income security when they retire and offers a number of advantages over other types of savings:

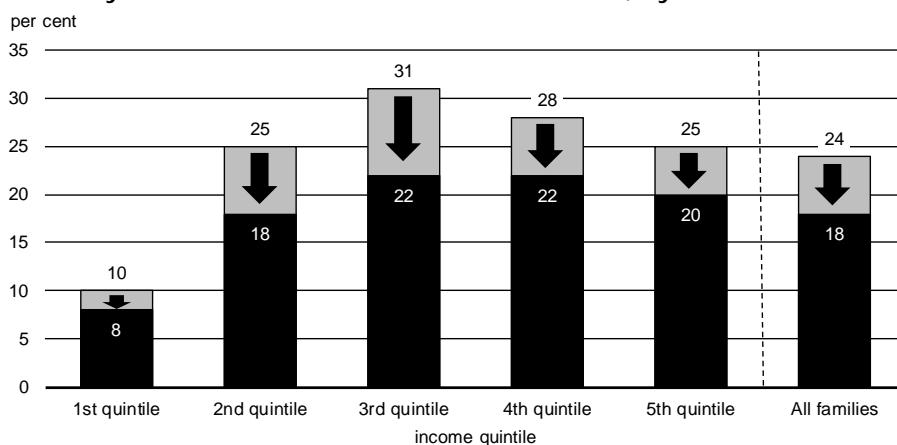
- It will provide a secure, predictable benefit in retirement, so Canadians can worry less about outliving their savings and be less anxious about the safety of their investments.
- Benefits will be indexed, which means that they will keep up with the cost of living.
- It will be a good fit with young workers entering Canada's changing job market, helping to fill the gap left by declining workplace pension coverage.
- It will be portable across jobs and provinces, including in Quebec where the Quebec Pension Plan has been enhanced in a similar fashion.

The CPP enhancement is being phased in gradually and will raise the maximum CPP retirement benefit by up to 50 per cent over time. This means that the current maximum retirement benefit will increase by nearly \$7,300, from \$13,855 to more than \$21,100, in today's dollar terms.

The CPP enhancement represents a major strengthening of one of the three pillars of Canada's retirement income system (along with the Old Age Security program and voluntary tax-assisted private savings). It will significantly reduce the risk of undersaving for Canadian families, and will be particularly beneficial for middle income families and families without workplace pension plan coverage.

Chart 1.8

Impact of CPP Enhancement: Per Cent of Families Near Retirement Who May Not Have Sufficient Retirement Income, by Income Quintile



Notes: Chart shows the estimated impact of the CPP enhancement if it was fully mature today (i.e., workers had contributed to the enhanced Plan over their full careers). Figures represent the share of families nearing retirement age at risk of not replacing 60 per cent of their pre-retirement after-tax income when considering income from the three pillars of the retirement income system and savings from other financial and non-financial assets. Income quintiles correspond to pre-retirement after-tax income of families with a major income earner age 45-59. The 1st quintile corresponds to the bottom 20% of families in the income distribution while the 5th quintile corresponds to the top 20% of families.

Sources: Survey of Financial Security, 2012; Department of Finance Canada calculations.

Further Investments Benefitting the Quality of Life of Seniors

In addition to improving the retirement income security of Canadians, the Government has also made other important investments in the lives of seniors.

- Appointing a **Minister of Seniors** to help the Government better understand the needs of Canadian seniors, and ensure that programs and services are designed to respond to those needs.
- \$40-billion for the 10-year **National Housing Strategy**, which will help ensure that vulnerable Canadians, including low-income seniors, have access to housing that meets their needs and that they can afford.
- \$6 billion over 10 years for **home care**, to allow provinces and territories to improve access to home, community and palliative care services.
- \$77 million in additional funding for the **Enabling Accessibility Fund**, to improve the safety and accessibility of community spaces.
- Making it easier to apply for **Employment Insurance caregiving benefits**, and introducing a new Employment Insurance caregiving benefit of up to 15 weeks to support individuals who are providing care to an adult family member who requires significant support in order to recover from critical illness or injury.

Chapter 1 - Investing in the Middle Class
 millions of dollars

	2018– 2019	2019– 2020	2020– 2021	2021– 2022	2022– 2023	2023– 2024	Total
Part 1. An Affordable Place to Call Home							
Introducing the First-Time Home Buyer Incentive	0	0	0	0	0	0	0
<i>Fiscal Framework</i>	0	15	20	27	29	30	121
Less: Projected Revenues	0	0	0	0	0	0	0
Modernizing the Home Buyers' Plan	0	25	30	30	30	30	145
Expanding the Rental Construction Financing Initiative	0	18	40	84	115	129	385
Encouraging Innovation with the Housing Supply Challenge	0	0	63	63	63	63	250
Launching an Expert Panel on Housing Supply and Affordability	0	7	2	0	0	0	9
Less: Reduction in Departmental Funding	0	-7	-2	0	0	0	-9
Taking Action to Enhance Tax Compliance in the Real Estate Sector	0	9	10	10	10	10	50
Less: Projected Revenues	0	-10	-14	-14	-14	-14	-68
Monitoring Purchases of Canadian Real Estate	0	1	1	0	0	0	1
Part 1. An Affordable Place to Call Home Total	0	58	149	199	232	247	885
Part 2. A New Approach to Helping Middle Class Canadians Find and Keep Good Jobs							
Improving Gender and Diversity Outcomes in Skills Programs	0	1	1	1	1	1	5
Canada Training Credit	0	35	155	185	210	230	815
Less: Projected Revenues	0	-5	-20	-25	-25	-30	-105
Employment Insurance Training Support Benefit	0	21	133	343	353	359	1,209
Less: Projected Revenues	0	-83	-241	-250	-259	-269	-1,103
Less: Projected Savings	0	0	0	-3	-3	-3	-8
Making Canada Student Loans More Affordable	0	224	345	361	377	392	1,700
Less: Projected Savings	0	0	-1	-2	-4	-5	-12
Making Canada Student Loans More Accessible	0	9	22	25	27	29	111
Less: Projected Savings	0	-17	-24	-19	-18	-18	-96
Enhancing Supports for Apprenticeship	0	3	13	10	10	10	46

Paid Parental Leave for Student Researchers	0	5	6	9	9	9	37
Supporting Graduate Students Through Research Scholarships	0	15	20	27	27	27	114
Supporting Indigenous Post-Secondary Education	0	82	99	119	119	121	540
Expanding the Canada Service Corps	0	35	57	68	71	84	315
Giving Young Canadians Digital Skills	0	30	30	0	0	0	60
Modernizing the Youth Employment Strategy	0	30	5	5	5	5	50
Canada's New International Education Strategy	0	21	44	66	8	8	148
Expanding the Student Work Placement Program	0	76	113	148	148	148	631
Additional Work-Integrated Learning Opportunities	0	0	20	30	50	50	150
Supporting the work of the Business/Higher Education Roundtable	0	6	6	6	0	0	17
Part 2. A New Approach to Helping Middle Class Canadians Find and Keep Good Jobs Total	0	485	783	1,102	1,107	1,147	4,624
Part 3. Moving Forward on Implementing National Pharmacare							
Introducing the Canadian Drug Agency	0	5	10	10	10	0	35
Making High-Cost Drugs for Rare Diseases More Accessible	0	0	0	0	500	500	1,000
Part 3. Moving Forward on Implementing National Pharmacare Total	0	5	10	10	510	500	1,035
Part 4. A Secure Retirement							
Improving the Economic Security of Low-Income Seniors	0	0	346	466	471	476	1,759
Making Sure Everyone Who Is Eligible Receives Canada Pension Plan Benefits	0	0	0	0	0	0	0
Protecting Canadians' Pensions	0	0	1	1	1	1	5
Empowering Seniors in their Communities	0	20	20	20	20	20	100
Part 4. A Secure Retirement Total	0	20	367	487	492	497	1,864
Chapter 1 - Net Fiscal Impact							
	0	568	1,310	1,798	2,342	2,391	8,408



CHAPTER 2

Building a Better Canada

For a century and a half—and for Indigenous Peoples, millennia before that—the people who call Canada home have come together to build a better country, and a better future for themselves and their children.

Together, we built the cities and towns that have given millions of people a good start in life, and are now a welcoming place to raise our own families.

Recognizing the importance of connections, we built the roads and railways, seaways and ports that link our communities to each other, and the world.

Canadians also built our world-class public institutions—home to innovators whose ideas and inventions are making the world a healthier, cleaner, more connected place.

As our history proves, however, there is always more work to be done to build a better Canada.

Canadians want continued investments in their communities—making them even better places to live while creating good, well-paying jobs and keeping our economy strong and growing.

They want new ways to connect—so that all Canadians have access to high-speed internet and more affordable electricity, and so that no one is left out, or left behind.

They recognize the very real challenge of climate change, and embrace the opportunity to be a world leader in fighting pollution.

And they want to build a nation of entrepreneurs and scientists that will help create the better future we all want.

With Budget 2019, the Government is investing in that future, to build a better Canada.

Part 1: Building Strong Communities

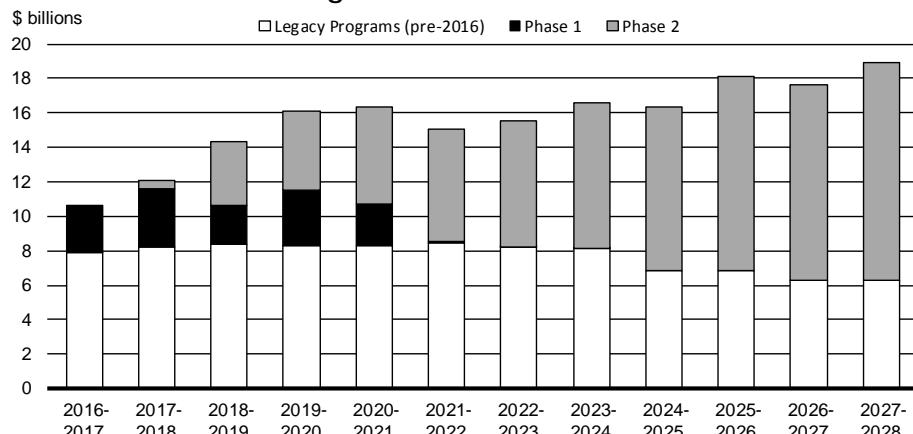
Investing in infrastructure creates good, well-paying middle class jobs today, and sets the stage for long-term economic growth that benefits everyone. But there is more to infrastructure than jobs and growth. It also makes our communities better places to live.

Better public transit means busy parents can get home sooner at the end of a long day. Modern water and wastewater systems help to keep Canadians healthy and safe. Flood mitigation projects help communities cope with the damaging effects of climate change. More efficient transportation corridors mean that businesses can get their goods to customers more quickly. And better social infrastructure—things like affordable housing, community centres, and public parks—make our cities and towns places we can all be proud to call home.

The Investing in Canada Plan: An Update

In Budget 2016, the Government announced the first phase of its Investing in Canada Plan, which provided \$14.4 billion for short-term investments to upgrade and repair existing infrastructure. In Budget 2017, the Government outlined the second phase of its plan, including a commitment to invest an additional \$81.2 billion in long-term funding for public transit, green infrastructure, social infrastructure, and infrastructure that supports trade and transportation, and rural and northern communities. In total, the Government is investing more than \$180 billion over 12 years to build infrastructure in communities across the country. Additional investment associated with the first and second phase of the Investing in Canada Plan is expected to help create or maintain an estimated 42,000 jobs by 2020–21.

Chart 2.1
Allocation of the Investing in Canada Plan



Note: The breakdown of Phase 1, Phase 2 and Legacy Programs reflects budget allocations and reprofiles.

Progress Since Fall 2018

- Since the last update in the 2018 Fall Economic Statement, long-term agreements have been signed with all provinces and territories that will deliver more than \$33 billion in federal infrastructure investments. As a result, more priority projects identified by the provinces and territories are able to move forward, including two major Light Rail Transit projects in Edmonton that will extend service to new areas of the city, improve riders' experience and increase accessibility.
- To reduce export bottlenecks and help Canadian businesses take advantage of new overseas markets, the Government accelerated funding available under the National Trade Corridors Fund. Organizations that are benefitting from funding from the National Trade Corridors Fund include, Gander International Airport Authority (NL), Ville de Montréal (QC) and First Air (NU).
- To help increase investments in critical public transit, trade and transportation, and green infrastructure, the Canada Infrastructure Bank is actively engaged with governments and the investor community on major project opportunities across the country, building on its \$1.28 billion investment in the Réseau express métropolitain project in Montréal.

Projects Approved and Underway

Working with provinces and territories, the Government has approved more than 33,000 infrastructure projects for communities across Canada, supported by federal investments of approximately \$19.9 billion.¹ The majority of these projects are already underway—creating good, middle class jobs today, and delivering long-term economic, social, and environmental benefits in communities both big and small.

At the same time, the pace of spending under the Investing in Canada Plan has been slower than originally anticipated, for reasons that include delays between construction activity and receipt by the Government of claims for payment, and by some jurisdictions being slower to prioritize projects than expected.

The Government is currently working with the provinces and territories to accelerate projects under their bilateral agreements to ensure momentum continues. The Government is taking steps to streamline the process for the provinces and territories to prioritize projects for funding, and to improve financial reporting so that it is clear when project costs are incurred, and when federal funds will flow to recipients.

¹ The Government is also investing in thousands of projects through ongoing programs that were in place before 2016. For example, the federal Gas Tax Fund supports approximately 4,000 projects in 3,600 communities each year.

Figure 2.1: Value of Investing in Canada Plan Projects Approved Across Canada²

British Columbia:

Affordable Housing

The federal government invested \$1.5 million in the construction of 220 Terminal Avenue in Vancouver. The development includes 40 single-occupancy rental suites for Vancouver residents in need of safe and affordable housing.

Northwest Territories:

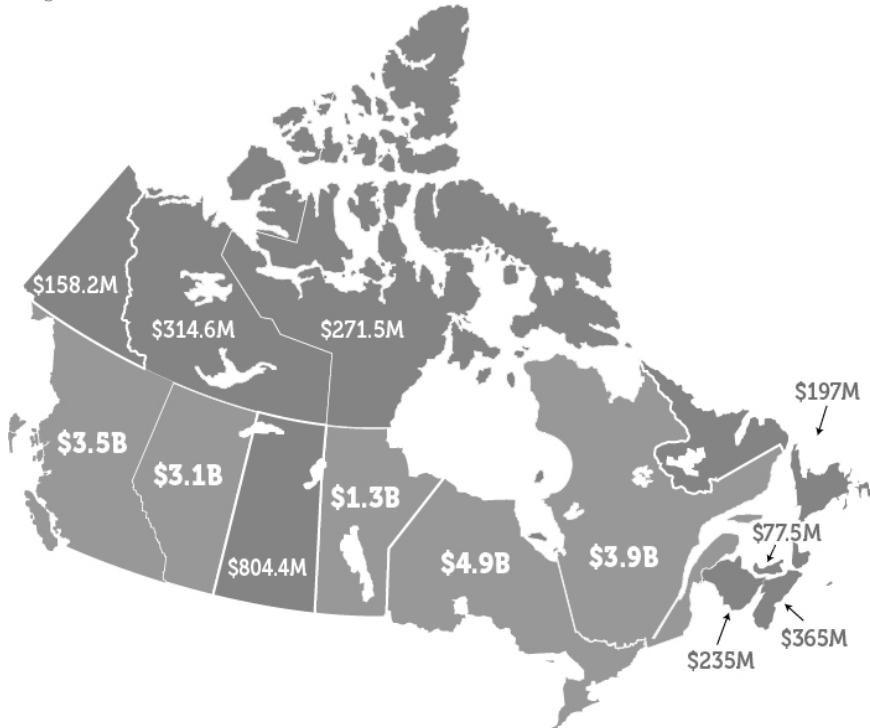
Clean Wind Power

The federal government is contributing \$30 million towards a wind generation project in Inuvik. This innovative project will create a more efficient, more reliable and cleaner source of energy for residents.

Quebec:

New Azur Subway Cars

Montréal's metro system will be able to purchase 153 new subway cars, supported by a federal government investment of more than \$215 million. The new cars will replace part of the existing fleet, making the system more efficient and reliable.



Alberta:

Water Systems

The federal government invested \$11.2 million to expand municipal water and wastewater systems in Lethbridge. This investment supports the planned development in the East Sherring Business and Industrial Park, services rural homes, and helps to better manage storm runoff.

Ontario:

New Go Transit Train Coaches

Users of the seven GO Transit lines in the Greater Toronto-Hamilton Area will soon be getting to their destinations faster thanks to a federal investment of \$93.5 million. This investment means that 53 new bi-level train coaches will be delivered one year earlier than planned.

Nova Scotia:

Renewable Tidal Energy

Halagonia Tidal Energy received \$29.8 million in federal support for its \$117 million marine renewable energy project to provide clean electricity to Nova Scotia. The project will create approximately 120 jobs and cut pollution from power generation in the province.

² In addition to project values mapped above, the total \$19.9 billion includes additional funding of \$496 million nationally and \$152.8 million for Indigenous communities in the Atlantic region.

Chart 2.2

Approved Projects Under the Investing in Canada Plan

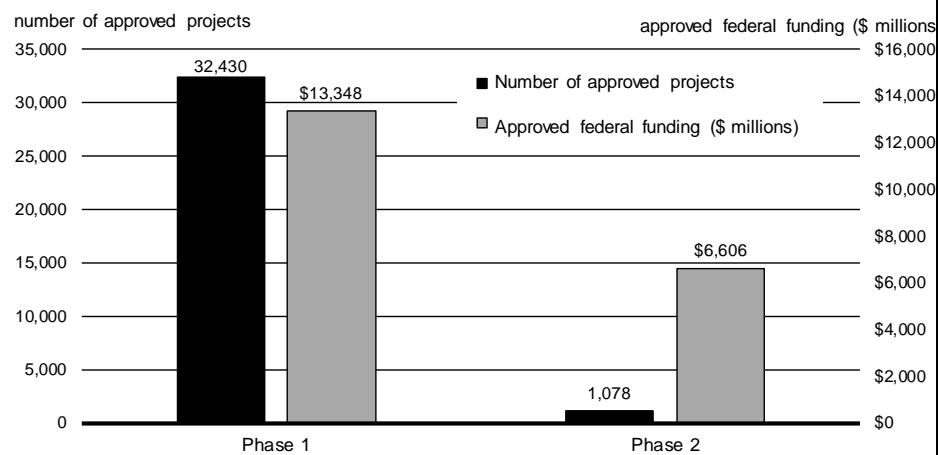


Table 2.1
Investing in Canada Plan—Major Programs

Phase	Program name	Objective
Phase 1	Public Transit Infrastructure Fund	Alleviate traffic congestion, reduce air pollution and cut long commutes that make it harder for people to get to work and for families to spend time together to strengthen communities.
	Clean Water and Wastewater Fund	Keep our waterways clean and our communities healthy with improved reliability to drinking water, wastewater and storm water systems.
	Investment in Affordable Housing	Reduce the number of Canadians in need and improve access to affordable housing for vulnerable Canadians, fostering safe, independent living.
	Connect to Innovate	Extend high-speed Internet to rural and remote communities in Canada, with a focus on building new backbone infrastructure in communities to provide connections to institutions like schools, hospitals and libraries.
	Homelessness Partnering Strategy	Prevent and reduce homelessness by providing direct support and funding to designated communities.
Phase 2	Investing in Canada Infrastructure Program	Deliver funds to provinces and territories for prioritized projects in the areas of public transit, green infrastructure, community, culture and recreation infrastructure, rural and northern communities' infrastructure.
	Canada Infrastructure Bank	Attract private capital to enable more infrastructure to get built at a lower cost to Canadians by investing in revenue generating public infrastructure.
	National Trade Corridors Fund	Address transportation bottlenecks, vulnerabilities and congestion along Canada's trade corridors, helping Canadian companies to compete in global markets and trade more efficiently with international partners.
	Disaster Mitigation and Adaptation Fund	Help communities better manage the increasing risks of natural disasters as a result of climate change.
	Canada Cultural Spaces Fund	Support cultural infrastructure projects across the country by investing in traditional arts and heritage facilities, such as museums, theatres and performing arts centres.
	Indigenous Community-Based Climate Monitoring Program	Build capacity within First Nation, Métis and Inuit communities to monitor climate change effects, providing the data required to inform community adaptation actions.

Creating Jobs Through the Investing in Canada Plan

In 2015–16, the Government spent approximately \$8 billion on infrastructure. With the introduction of the Investing in Canada Plan in 2016, the level of investment steadily grew, to \$14.3 billion in 2018–19—an increase of 75 per cent in just three years. Over the next nine years, the Plan will invest an average of more than \$16 billion per year. This dramatic increase in infrastructure investments spending has already helped to strengthen and grow Canada’s economy, and its continued rise over the next two years will support economic growth at a time when the global outlook remains uncertain.

The Department of Finance Canada estimates that the incremental increase in infrastructure spending associated with Phase 1 and Phase 2 of the Investing in Canada Plan will raise the level of real gross domestic product (GDP) by 0.4 per cent by 2020–21, compared to what would have been the case without this additional infrastructure investment. This translates into employment opportunities in highly skilled areas, with an estimated 42,000 jobs created or maintained by 2020–21.

The Investing in Canada Plan recognizes the important role infrastructure plays in building strong communities, creating employment opportunities in highly skilled areas and growing the economy. Statistics Canada’s *Infrastructure Economic Account* shows that the value of the overall Investing in Canada Plan—Legacy Programs funding together with Phase 1 and Phase 2—is associated with about 100,000 direct and indirect jobs in 2018–19.

Slightly more than half of these jobs are the result of direct investment effects in well-paid industries such as construction or manufacturing, whereas the rest are in the Canadian companies that supply the equipment, supplies and services needed for large-scale infrastructure projects.

Going forward, the ongoing investments will continue to provide employment opportunities to over 100,000 Canadians on average each year throughout the remainder of the long-term infrastructure plan.

Infrastructure investments also deliver economic benefits over the long term. The International Monetary Fund³ recently examined the long-term effect of a permanent increase in public infrastructure investments and found that for advanced economies such as Canada, permanently increasing investment in public infrastructure by 1 per cent of GDP would boost GDP by approximately 2.5 per cent after 10 years.

Trade Infrastructure

The National Trade Corridors Fund provided \$9.2 million to Ashcroft Terminal Ltd. in British Columbia to build a new rail link, extra rail track and an internal road network. These new infrastructure projects will provide producers and shippers improved efficiency in the shipment of goods, support the movement and storage of rail cars to enhance fluidity through Canada’s Pacific Gateway Trade Corridor and ensure that rail and truck operations do not interfere with each other, thereby increasing safety.

³ International Monetary Fund, World Economic Outlook, October 2014.

Given both the short- and long-term benefits of infrastructure, and the thousands of projects currently underway across Canada, it is clear that the Investing in Canada Plan is delivering real benefits for Canadians—and will continue to do so for years to come.

New Infrastructure Funding for Local Communities Through a Municipal Top-Up

In 2015, the Government made a commitment to ensure that promised infrastructure investments in communities would be kept. Prior to that time, too often, money that had been budgeted for investment in communities was left unspent and unallocated—shortchanging cities and towns that needed those funds for important projects such as road maintenance, water infrastructure, public transit and recreational infrastructure.

Since 2015, the federal government has worked in partnership with provinces and territories to protect these infrastructure dollars, to ensure that they do not lapse and are available to flow to communities when projects are ready. The Government transferred remaining uncommitted funds from older federal infrastructure programs to municipalities through the federal Gas Tax Fund, and has ensured that the \$81.2 billion in long-term infrastructure funding announced in Budget 2017 is available for jurisdictions when it is needed.

Because many municipalities across Canada continue to face serious infrastructure deficits, Budget 2019 proposes a one-time transfer of \$2.2 billion through the federal Gas Tax Fund to address short-term priorities in municipalities and First Nation communities. This will double the Government's commitment to municipalities in 2018–19 and will provide much needed infrastructure funds for communities of all sizes, all across the country.

Figure 2.2: Municipal Top-Up Funds to Support Local Priorities

	Productivity and Economic Growth	Clean Environment	Strong Cities and Communities
Eligible Categories	<ul style="list-style-type: none">Local roads and bridgesHighwaysShort-sea shippingShort-line railRegional and local airportsBroadband connectivityPublic transit	<ul style="list-style-type: none">Drinking waterWastewaterSolid wasteCommunity energy systemsBrownfield redevelopment	<ul style="list-style-type: none">Sport and recreationCultural and tourismDisaster mitigationCapacity building
Project Examples (2014-2016)	<p>Communities in Saskatchewan: 344 local road and bridge projects increasing transportation capacity</p>	<p>Communities in the Yukon: 28 community energy projects, such as a solar electricity generating system in a Champagne-Aishihik First Nations residence</p>	<p>Communities in Ontario: 36 recreation projects enhancing facilities and encouraging over 1,200 people to make greater use of them</p>

Part 2: Affordable Electricity Bills and a Clean Economy

For too many Canadians, the rising cost of electricity is a source of economic anxiety. No one should have to choose between heating their home in winter and being able to afford the other things that provide a good quality of life—things like healthy, nutritious food, or clothes for family members. Yet the fact remains that in many Canadian cities, the cost of electricity is rising much faster than growth in household disposable income—making it hard for many people to make ends meet.

Budget 2019 proposes a number of measures to help hard-working Canadians more easily afford this necessity.

Investing in the Future of Transportation

Transportation accounts for about one quarter of Canada's greenhouse gas emissions, mainly coming from gas- and diesel-powered cars and trucks. The future of transportation lies in the increased use of zero-emission vehicles—cars and trucks powered by rechargeable electric batteries or hydrogen fuel cells. While these vehicles are not yet common in communities across Canada, they can provide a cleaner, more efficient way to transport people and goods and, over the long run, help Canadians reduce the everyday cost of transportation.

That is why Canada has set a target to sell 100 per cent zero-emission vehicles by 2040, with sales goals of 10 per cent by 2025 and 30 per cent by 2030 along the way. By becoming an early adopter of this new technology, Canada will help the Canadian zero-emission vehicle market advance, making zero-emission vehicle options more readily available and affordable for more and more Canadians.

Making Zero-Emission Vehicles More Affordable

More and more Canadians are choosing to drive zero-emission vehicles as an increasing number of models become available and prices decline. Those who have already purchased these vehicles are realizing the financial savings from lower operating costs. The Government is taking action to help more Canadians choose zero-emission vehicles, which will allow Canada to transition to a low carbon economy and reduce transportation costs for the middle class. The Government also wants to encourage investment in Canada's domestic auto industry so that it can become a global leader in zero-emission transportation manufacturing.

Budget 2019 proposes strategic investments that will make it easier and more affordable for Canadians to choose zero-emission vehicles—helping people to get from place to place, improving air quality and cutting greenhouse gas emissions at the same time.

 To expand the network of zero-emission vehicle charging and refuelling stations, Budget 2019 proposes to build on previous investments by providing Natural Resources Canada with \$130 million over five years, starting in 2019–20, to deploy new recharging and refuelling stations in workplaces, public parking spots, commercial and multi-unit residential buildings, and remote locations.

 Meeting the ambitious sales targets requires automakers to make sufficient models and numbers of zero-emission vehicles available for sale to meet Canadian needs. Budget 2019 proposes to provide \$5 million over five years, starting in 2019–20 to Transport Canada to work with auto manufacturers to secure voluntary zero-emission vehicle sales targets to ensure that vehicle supply meets increased demand.

 To encourage more Canadians to buy zero-emission vehicles, Budget 2019 proposes to provide \$300 million over three years, starting in 2019–20, to Transport Canada to introduce a new federal purchase incentive of up to \$5,000 for electric battery or hydrogen fuel cell vehicles with a manufacturer's suggested retail price of less than \$45,000. Program details to follow.

 To attract and support new high-quality, job-creating investments in zero-emission vehicle manufacturing in Canada, automotive manufacturers and parts suppliers can access funding through the Strategic Innovation Fund, which was recently provided \$800 million in additional funding through the 2018 Fall Economic Statement.

Supporting Business Investment in Zero-Emission Vehicles

 To further support businesses' adoption of zero-emission vehicles, Budget 2019 proposes that these vehicles be eligible for a full tax write-off in the year they are put in use. Qualifying vehicles will include electric battery, plug-in hybrid (with a battery capacity of at least 15 kWh) or hydrogen fuel cell vehicles, including light-, medium- and heavy-duty vehicles purchased by a business. This will encourage all businesses to convert to zero-emission fleets and leave more money to be invested in other productive ways. For example, a taxi company or a school bus operator will be able to recoup their investments in eligible zero-emission vehicles in a faster manner.

Immediate expensing will apply to eligible vehicles purchased on or after March 19, 2019 and before January 1, 2024. Capital costs for eligible zero-emission passenger vehicles will be deductible up to a limit of \$55,000 plus sales tax. This is higher than the capital cost limit of \$30,000 plus sales tax that currently applies to passenger vehicles. This new \$55,000 capital cost limit reflects the comparably higher cost of zero-emission vehicles and will be reviewed annually to ensure that it remains appropriate as market prices evolve over time.

How Immediate Expensing Will Support Investment in Zero-Emission Vehicles

Anne is a travelling sales representative working as an independent contractor. She needs to replace the aging gasoline vehicle that she currently uses strictly for her business and is considering the advantages of buying an electric vehicle. Anne drives long distances every day and requires an electric vehicle with a long range. She found that a suitable electric vehicle has a cost of \$48,000. With measures announced in this Budget, she could deduct the \$48,000 purchase price of the electric vehicle in full in the year she starts using it. This is in addition to the fact that she would be refunded the GST or HST paid. The decision to purchase an electric vehicle would reduce Anne's federal/provincial income taxes and GST/HST in the year she acquires the vehicle by about \$13,000. This significantly reduces the impact of the higher initial price of the electric vehicle. Given the electric car's lower operating costs, Anne concludes that opting for the electric vehicle would result in savings over time. This choice significantly reduces the carbon footprint of Anne's business, while freeing up resources for other purposes in the year she acquires the vehicle.

Happy Transport provides transportation services to schools in a rapidly growing community. The corporation would like to acquire \$1 million worth of new electric school buses to expand its operations. Over time, Happy Transport expects that the lower operating costs of the electric school buses will improve profitability and allow it to further expand its business and the employment opportunity it provides. With immediate expensing for zero-emission vehicles, Happy Transport will be allowed to deduct from income the full \$1 million acquisition cost in the year the buses are acquired. This is \$550,000 more than previously permitted, resulting in savings of over \$145,000 in current federal and provincial corporate income taxes. This improved cash-flow will help Happy Transport secure the bank loan it requires to pay for the increased upfront costs of electric school buses.

Reducing Energy Costs Through Greater Energy Efficiency

Improving the energy efficiency of Canada's homes and buildings will make them more comfortable and affordable by lowering energy bills.

To help reduce Canadians' electricity bills—whether they are homeowners, renters or building operators—Budget 2019 proposes to invest \$1.01 billion in 2018–19 to increase energy efficiency in residential, commercial and multi-unit buildings. These investments will be delivered by the Federation of Canadian Municipalities (FCM) through the Green Municipal Fund. The FCM has been the national voice of municipal government since 1901 and is a trusted partner in delivering federal funds directly to local governments. Its members include Canada's largest cities, small urban and rural communities and 19 provincial and territorial municipal associations. Budget 2019 proposes to allocate the resources to three initiatives that would provide financing to municipalities as follows:

- Collaboration on Community Climate Action (\$350 million): to provide municipalities and non-profit community organizations with financing and grants to retrofit and improve the energy efficiency of large community buildings as well as community pilot and demonstration projects in Canadian municipalities, both large and small. FCM and the Low Carbon Cities Canada Initiatives will create a network across Canada that will support local community actions to reduce GHG emissions.
- Community EcoEfficiency Acceleration (\$300 million) to provide financing for municipal initiatives to support home energy efficiency retrofits. Homeowners could qualify for assistance in replacing furnaces and installing renewable energy technologies. The FCM will use innovative approaches like the Property Assessed Clean Energy (PACE) model that allows homeowners to repay retrofit costs through their property tax bills.
- Sustainable Affordable Housing Innovation (\$300 million) to provide financing and support to affordable housing developments to improve energy efficiency in new and existing housing and support on-site energy generation.

Budget 2019 also proposes to invest \$60 million in 2018–19 in FCM's **Municipal Asset Management Capacity Fund** to help small communities get skills training on how to inventory, grow and maintain infrastructure assets over five years. This program has proven to be popular and has demonstrated results to assist communities in developing accurate data around local infrastructure for budgetary and investment decisions. To support this proposal and others, including support for coal-affected communities and investments in the Arctic, the remaining Green Infrastructure funding identified in Budget 2017 has now been allocated.

Energy Efficiency in Action

Sinton is a small business owner who owns a restaurant in Halifax. To help with the bills, he also rents out a small apartment above the restaurant to two students. Sinton received a loan for retrofits from the Halifax Regional Municipality from funding provided to the city from the Green Municipal Fund. With the money, he was able to replace the windows in the building, install a new tankless hot water system in the apartment and a high efficiency heating and cooling system for the restaurant. As a result of these investments, Sinton's customers are more comfortable year-round, and his and his tenants' electricity bills have been lowered.

More Connectivity = More Affordable Electricity

Canadians should have access to affordable, reliable, and clean electricity, including people living in remote and northern communities.

In Canada, the provinces and territories—rather than the federal government—are responsible for the generation, transmission, distribution and sale of electricity within their boundaries. First Ministers agreed in December 2018 to develop a framework for a clean electric future of reliable and affordable electricity, including by considering interprovincial clean energy corridors. Partners also agreed on the importance of encouraging communities to move away from using diesel to generate power in remote communities and to increase industrial electrification.

The Canada Infrastructure Bank (CIB) has identified clean hydroelectricity and electrical connectivity infrastructure as an area it will look to support in its upcoming workplans. The CIB is well positioned to work with jurisdictions, including northern communities, to plan and finance projects that improve access within Canada to affordable, reliable and clean electricity in the most effective way. This includes projects that improve interconnections between provincial electricity grids. The CIB can help jurisdictions to assess supply and demand dynamics, and to develop business cases for promising projects. It can also co-invest in projects in order to attract capital from and transfer risks to the private sector—helping to expand the reach of public infrastructure dollars. The CIB has been allocated \$5 billion for investments in green infrastructure, which could include electricity projects such as interties between provinces and territories.

The Government also recognizes that small jurisdictions face unique constraints. Through improvements to the Investing in Canada Infrastructure Program, the Government will support planning efforts by jurisdictions to advance clean energy projects and other infrastructure priorities in small communities and the territories.

 In addition, as noted in “Building Connections in Canada’s Arctic and Northern Regions”, Budget 2019 proposes to provide a further \$18 million, over three years, starting in 2019–20, to support planning by the Government of Northwest Territories for its proposed Taltson hydroelectricity expansion project.

Historic Indigenous-Led Transmission Project to Connect Remote First Nations Communities to the Ontario Power Grid

On March 22, 2018, in partnership with Ontario, the Government announced \$1.6 billion in federal funding for Wataynikaneyap Power to connect 16 First Nations to the provincial power grid. The federal contribution will be offset by reductions to federal funding for diesel generation in these communities that will be no longer required due to the new transmission line. Locally sourced diesel power is more expensive and produces more greenhouse gas emissions than grid-connected electricity.

The Wataynikaneyap Power project will be the largest First Nations grid connection project in the history of the province and a model for development. This investment will provide clean, safe and reliable energy and will improve the quality of life for northern Ontario's remote communities.

Fighting Climate Change With a Price on Pollution

We have all seen the impact of climate change through extreme weather events. We need to act now to ensure that our children and grandchildren have clean air to breathe, and Canada has a strong and healthy economy.

In December 2016, Canada's First Ministers adopted the Pan-Canadian Framework on Clean Growth and Climate Change. The Pan-Canadian Framework is this country's plan to meet our emissions reduction targets, grow the economy and build resilience to a changing climate. The Framework is built on four pillars: pricing carbon pollution; complementary actions to further reduce emissions across the economy; measures to adapt to the impacts of climate change and build resilience; and actions to accelerate innovation, support clean technology and create jobs.

Pricing carbon pollution is central to the Framework. It is the most efficient way to send a price signal to companies, investors, and consumers to make more environmentally sustainable choices. This is the least costly way to reduce greenhouse gas emissions and foster clean innovation. Starting this year, it is no longer free to pollute in Canada. The Government is making sure that there is a price on carbon pollution across the country, while also taking steps to maintain affordability for households and ensuring that Canadian companies can compete and succeed in a competitive global marketplace.

Many provinces and territories have already implemented or are on track to implement a carbon pollution pricing system, or have asked to adopt the federal system in whole or in part. The federal carbon pollution pricing system has two components: a regulatory charge on fossil fuels and an output-based pricing system for large industrial facilities, which provides a price incentive to reduce emissions and spur innovation. The federal output-based pricing system came into effect in Ontario, New Brunswick, Prince Edward Island, Manitoba and partially in Saskatchewan in January 2019 and will apply in Yukon and Nunavut starting in July 2019. The federal fuel charge will apply in Ontario, Manitoba, New Brunswick and Saskatchewan starting in April 2019 and in Yukon and Nunavut starting in July 2019.

Today, the Department of Finance is publishing a news release, accompanied by a backgrounder and draft amendments, seeking comments on further refinements to the federal carbon pollution pricing system. The proposals include: expanded relief of the fuel charge for electricity generation for remote communities; a rebate for exports of fuel under certain conditions; integration of the Saskatchewan output-based performance standards system with the federal fuel charge; and expanded relief of the fuel charge for farmers for gasoline and light fuel oil (e.g., diesel) delivered at cardlock facilities.

The Government will not keep any direct proceeds from the federal carbon pollution pricing system.

For jurisdictions that do not meet the Canada-wide federal standard for reducing carbon pollution—Ontario, New Brunswick, Manitoba and Saskatchewan—the Government will return all direct proceeds from the fuel charge in the jurisdiction of origin, with the bulk of direct proceeds going to individuals and families residing in those provinces through Climate Action Incentive payments. Further details about the Climate Action Incentive payments can be found in the box below.

The remainder of proceeds will be directed towards providing support to sectors within these provinces that may be particularly affected by the carbon pollution price, including small and medium-sized businesses, municipalities, universities, colleges, schools, hospitals, non-profits and Indigenous communities. The Government will introduce legislation to allow proceeds from the regulatory charge to be directed towards these sectors.

For jurisdictions that voluntarily adopted the federal system—Prince Edward Island, Yukon and Nunavut—all direct proceeds will be returned to the governments of those jurisdictions.

Table 2.2

Baseline Climate Action Incentive Payment Amounts in 2019 (Through 2018 Personal Income Tax Returns)

	Ontario	New Brunswick	Manitoba	Saskatchewan
Single adult, or first adult in a couple	\$ 154	\$ 128	\$ 170	\$ 305
Second adult in a couple, or first child of a single parent	\$ 77	\$ 64	\$ 85	\$ 152
Each child under 18 (starting with the second child for single parents)	\$ 38	\$ 32	\$ 42	\$ 76
Example: Total amount for family of four	\$307	\$256	\$339	\$609

Note: Payments made to individuals and families vary by province of residence given that different levels of proceeds are generated in each affected jurisdiction, and the impacts of carbon pollution pricing on households differ. These variations are an outcome of the different types and quantities of fuels consumed in different provinces. These amounts do not include the 10-per-cent supplement for eligible residents of small and rural communities.

Climate Action Incentive Payments

Eligible residents of Ontario, New Brunswick, Manitoba and Saskatchewan can now claim tax-free Climate Action Incentive payments for their family, through their 2018 personal income tax returns. Most households will receive more in Climate Action Incentive payments than their increased costs resulting from the federal carbon pollution pricing system.

Climate Action Incentive payment amounts are based on family composition and province of residence (see Table 2.2). A 10-per-cent supplement is available to eligible individuals and families residing in small or rural communities, in recognition of their increased energy needs and reduced access to clean transportation options.

The federal carbon pollution pricing system is about recognizing that pollution has a cost, empowering Canadians, and driving innovation. Putting a price on products that are more polluting, and returning the bulk of the direct proceeds to individuals and families in the jurisdiction of origin, enables households to make cleaner and more environmentally sustainable choices. A family that receives a Climate Action Incentive payment may choose to invest it in energy efficiency improvements. This in turn allows them to save more money.

Going forward, Climate Action Incentive payment amounts will be boosted on an annual basis until 2022, to reflect increases in the price on carbon pollution under the federal backstop system and updated levels of proceeds being generated in each jurisdiction.

A Just Transition for Canadian Coal Power Workers and Communities

We've seen what can happen when governments take a stand for cleaner air. In 2005, in Toronto, there were 53 smog days. A decade later, thanks in large part to the phase-out of coal-fired generating stations, there were zero smog days.

— Rt. Hon Justin Trudeau, Prime Minister of Canada, October 2016

In 2016, coal generated approximately 9 per cent of electricity in Canada but was responsible for 72 per cent of greenhouse gas emissions in the electricity sector. Recognizing the costs of coal-fired electricity to human health and its impact on climate change, and supported by commitments in the 2015 Paris Agreement, the Government committed in 2016 to the phase-out of traditional coal-fired electricity across the country by 2030.

Coal-fired power plants produce almost 40 per cent of global electricity today, making carbon pollution from coal a leading contributor to climate change.

The health effects of air pollution from burning coal, including respiratory diseases and premature deaths, impose massive costs in both human and economic terms. Analysis has found that more than 800,000 people die each year around the world from the pollution generated by burning coal.

As a result, phasing out unabated coal power is one of the most important steps governments can take to tackle climate change and meet our commitment to keep global temperature increase well below 2 °C, and to pursue efforts to limit it to 1.5 °C.

— Powering Past Coal Alliance Declaration, 2018

While this phase-out is important to protect the health of Canadians and make progress on the 2030 climate change targets, the Government understands that this requirement will mean job losses for some workers, especially in communities in Alberta, Saskatchewan, New Brunswick and Nova Scotia that rely on coal production and combustion as an important source of employment. The Government is committed to helping these workers and communities prepare for, find and act on new opportunities as Canada makes a gradual transition away from the use of coal-fired power.

In 2018, the Task Force on Just Transition for Canadian Coal Power Workers and Communities was formed to consider how to support those affected in making the transition to a clean-growth economy. On March 11, 2019, the Task Force released its final report, including a series of recommendations for the Government's consideration.

 In response to the Task Force's recommendations, the Government intends to take the following actions:

- Create worker transition centres that will offer skills development initiatives and economic and community diversification activities in western and eastern Canada. These efforts are being supported by a federal investment of \$35 million over five years, funded through Budget 2018, for Western Economic Diversification Canada and the Atlantic Canada Opportunities Agency.
- Work with those affected to explore new ways to protect wages and pensions, recognizing the uncertainty that this transition represents for workers in the sector.
- Create a dedicated \$150 million infrastructure fund, starting in 2020–21, to support priority projects and economic diversification in impacted communities. This Fund will be administered by Western Economic Diversification Canada and the Atlantic Canada Opportunities Agency.

The Minister of Natural Resources, with support from the Minister of Environment and Climate Change, the Minister of Employment, Workforce Development and Labour, the Minister of Innovation, Science and Economic Development and the Minister of Rural Economic Development, will be responsible for reporting on results from these activities, while continuing to engage with provinces, workers, unions, municipalities and economic development agencies, to ensure that people affected by the phase-out have access to the help they need during this period of transition.

Improving Canadian Energy Information

Canada has a diverse energy mix, and responsibility for energy data collection is fragmented and spread across multiple sources, including provincial and federal governments. Canadians benefit from comparable and consolidated energy data as it contributes towards better decision-making by governments and industry, and supports higher quality research.

 Budget 2019 proposes to provide Natural Resources Canada with \$15.2 million over five years, starting in 2019–20, with \$3.4 million per year ongoing, to establish a virtual Canadian Centre for Energy Information delivered by Statistics Canada. This Centre will compile energy data from several sources into a single easy-to-use website. The Centre will also support ongoing research by Statistics Canada to identify data gaps that would improve the overall quality of energy information available to Canadians.

Fulfilling Canada's G20 Commitment

The Government believes that a clean environment and a strong economy go hand in hand—and that eliminating inefficient fossil fuel subsidies is an important step in the transition to a low-carbon economy.

In 2009, Canada and other Group of Twenty (G20) countries committed to phase out and rationalize inefficient fossil fuel subsidies, recognizing that these subsidies can encourage wasteful consumption, impede investment in clean energy sources and undermine efforts to fight the threat of climate change. For its part, Canada went one step further and committed to rationalize inefficient fossil fuel subsidies by 2025.

To date, Canada's efforts to reform fossil fuel subsidies have resulted in the phase-out or rationalization of eight tax expenditures. The phase-out or rationalization of these eight tax expenditures have been introduced gradually to enable the industry to adapt. Actions this Government has taken to move forward in meeting our commitment include:

- Rationalizing the tax treatment of expenses for successful oil and gas exploratory drilling (announced in Budget 2017 and to be completed by 2021).
- Phasing out a tax preference that allows small oil and gas companies to reclassify certain development expenses as more favorably treated exploration expenses (announced in Budget 2017 and to be completed in 2020).

- Announcing that the accelerated capital cost allowance for liquefied natural gas facilities would expire as scheduled in 2025 (announced in Budget 2016).

Continuing the Momentum

Canada will continue to review measures that could be considered inefficient fossil fuel subsidies with a view to reforming them as necessary. As part of that work, Canada and Argentina recently committed to undergo peer reviews of inefficient fossil fuel subsidies under the G20 process. Peer reviews of inefficient fossil fuel subsidies can increase transparency, encourage international dialogue, and help develop best practices while moving toward a low-carbon economy. This voluntary process will enable both countries to compare and improve knowledge, and push forward the global momentum to identify and reduce inefficient fossil fuel subsidies.

As part of the peer review process:

- Canada will develop a self-review report, which will include a list of federal fossil fuel subsidies, including the description of the subsidies, annual costs, analysis of the subsidies and any potential plans to reform subsidies. Discussions with experts will be held to help inform the development of Canada's self-review report, which will form the basis upon which an international expert review panel will assess Canada. This report will be made public once the peer review is finalized.
- Canada will also establish an international expert review panel to analyse the self-review report. The Organisation of Economic Co-operation and Development has agreed to chair the panel, which is expected to include our partnering country, Argentina, as well as other countries and key stakeholders. The findings and recommendations of the international panel will be made public once the review is finalized.

"On the path to a low-carbon economy, Canada is a world leader. This peer review supports the commitment we made to our G20 partners to phase out inefficient fossil fuel subsidies and is another important step in the Government's plan to invest in clean growth that helps create jobs for the middle class."

— Bill Morneau, Minister of Finance

Part 3: Connecting Canadians

Access to High-Speed Internet for All Canadians

In 2019, fast and reliable internet access is no longer a luxury—it's a necessity.

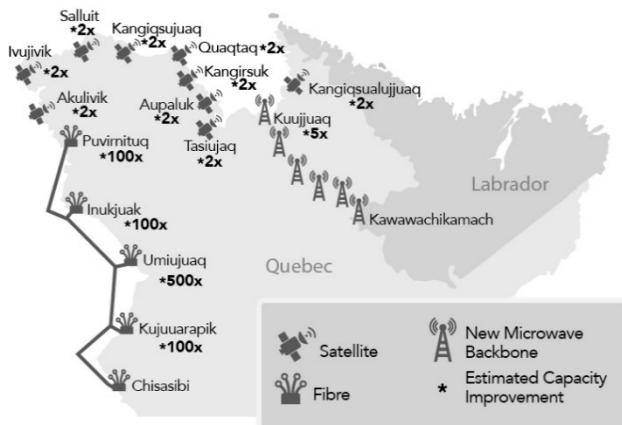
For public institutions, entrepreneurs, and businesses of all sizes, quality high-speed internet is essential to participating in the digital economy—opening doors to customers who live just down the street or on the other side of the world. It is also important in the lives of Canadians. It lets students and young people do their homework, stay in touch with their friends, and apply for their very first jobs. It helps busy families register for recreational programs, shop online and pay their bills and access essential services. For many seniors, the internet is a way to stay up on current events and stay connected to distant family members and friends.

Canadians have a strong tradition of embracing new technologies, and using them to help generate long-term economic growth and drive social progress. In recent years, Canada and Canadian companies built mobile wireless networks that are among the fastest in the world and made investments that are delivering next-generation digital technologies and services to people and communities across the country. Yet, unfortunately, many Canadians still remain without reliable, high-speed internet access. In this time in the 21st Century, this is unacceptable.

Bringing High-Speed Internet to Rural, Remote and Northern Communities

The Government has been steadfast in its commitment to bringing higher quality internet access to every part of Canada, especially those areas that are typically underserved, including rural, remote, and northern communities. With its first budget in 2016, the Government launched the \$500 million Connect to Innovate program, which has since approved approximately 180 projects, with further investments of \$554 million from the private sector and other orders of government. Once complete, these projects will add more than 20,000 kilometres of advanced fibre networks across the country, improving connectivity in over 900 communities, including 190 Indigenous communities. From homes and schools to hospitals and community centres, this investment will help deliver better connectivity to more than three times the number of communities originally expected to be helped by this program.

Figure 2.3: Connect to Innovate Kativik Broadband Project



Connect to Innovate contributed \$62.6 million to the Kativik Regional Government in Nunavik (northern Quebec) for their broadband project. The project will bring new or improved high-speed internet access to all Nunavik's 14 Inuit communities and to a total of 28 institutions, including schools and health centres. It is the first ultra-fast fibre optic connection between Nunavik and southern Canada.

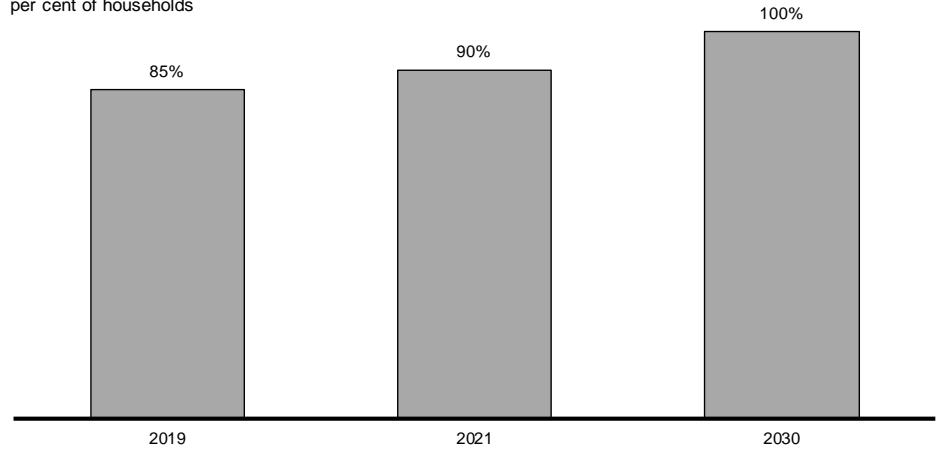
Canadians Benefit From High-Speed Internet

Catherine, 31, is an Indigenous entrepreneur in northern Quebec who operates a graphic design firm out of her home office. Before Connect to Innovate, broadband internet speeds in her rural community were quite limited, and communicating with clients and sending and receiving large files was slow and unreliable. After the expansion of a Connect to Innovate project in her community, she is now able to subscribe to a much faster and more reliable broadband internet connection that better suits the needs of her growing business. With better access, Catherine is able to take advantage of modern software programs with minimum interruption, utilize cloud-based computing and meet virtually with clients from around the world. In addition, her two school-aged children are able to take advantage of 21st century learning technologies, find information online and submit assignments electronically.

Working together, industry and governments have been able to successfully bring more people and more communities online. As a result, virtually every Canadian now has some level of access to the internet—but that access is not universally fast or reliable. A gap persists between the services available to people in rural, remote, and northern communities, compared to Canadians who live in more populated and urban towns and cities.

Chart 2.3

Access to High-Speed Internet of at Least 50/10 Mbps per cent of households



Download Internet Speeds	Benefits	Notes
1 Mbps	Insufficient speed to meaningfully participate online. Allows for basic browsing and email services.	
5 Mbps	Sufficient to conduct normal internet activities, such as accessing government services, social media and basic streaming videos.	
50 Mbps	Speed identified by the CRTC for Canadians to take advantage of cloud-based software applications, multiple government services (e.g. telehealth services, business support) online learning resources and high definition streaming videos.	It is estimated that by the time all currently planned broadband programs are in place by 2021, about 90 per cent of Canadians will have reliable access to internet speeds of 50 megabits per second (Mbps) for downloading data and 10 Mbps for uploading data (also known as 50/10 Mbps). However, even with 90 per cent of Canadians covered, about 1.5 million Canadian households will still be underserved. That needs to change.

What Can Canadians Do With 50/10 Mbps Internet Speeds?

On a typical day, Dan, who is the father of three, enjoys preparing dinner by streaming cooking videos for new ideas while his wife Tatiana, finishes her work day, using cloud-based accounting software to manage her small business. At the same time, their eldest child, Leigha, is researching the respiratory system for a science project through an interactive and media rich website while her twin brother plays an online game with their cousin who lives abroad.

How We Will Achieve a Fully Connected Canada

Delivering universal high-speed internet to every Canadian in the quickest and most cost-effective way will require a coordinated effort involving partners in the private sector and across all levels of government. To meet this commitment, Budget 2019 is proposing a new, coordinated plan that would deliver \$5 billion to \$6 billion in new investments in rural broadband over the next 10 years:

1. Support through the Accelerated Investment Incentive to encourage greater investments in rural high-speed internet from the private sector.
2. Greater coordination with provinces, territories, and federal arm's-length institutions, such as the CRTC and its \$750 million rural/remote broadband fund.
3. Securing advanced Low Earth Orbit satellite capacity to serve the most rural and remote regions of Canada.
4. New investments in the Connect to Innovate program and introduction of the Government's new Universal Broadband Fund.
5. New investments by the Canada Infrastructure Bank to further leverage private sector investment.

Canada's Commitment: Universal High-Speed Internet for Every Canadian

In Budget 2019, the Government is announcing its commitment to set a national target, in which **95 per cent of Canadian homes and businesses will have access to internet speeds of at least 50/10 Mbps by 2026 and 100 per cent by 2030, no matter where they are located in the country**. This is in keeping with the broadband internet speed objective set by the Canadian Radio-television and Telecommunications Commission (CRTC) for Canadian households and businesses across Canada.

Using the Accelerated Investment Incentive

In the 2018 *Fall Economic Statement*, the Government introduced the Accelerated Investment Incentive—an accelerated capital cost allowance designed to encourage businesses to invest and create more good, well-paying jobs. The Incentive is available to businesses of all sizes, across all sectors of the economy, including the telecommunications sector. Response to this new Incentive has been very favourable—to date, telecommunications companies have signalled more than \$1 billion worth of private sector activity, focused on providing better internet access to unserved or underserved communities. The Accelerated Investment Incentive is also expected to enhance competitiveness and help accelerate the deployment of next-generation digital technologies, such as 5G connectivity, across the country.

Working Closely With Partners

Provinces and territories are also moving forward and making their own important investments to help improve and expand access to high-speed internet. For example:

- The Government of Nova Scotia recently invested \$193 million in an internet funding trust to help connect more homes, businesses, and communities across the province.
- In its 2019 budget, the Government of British Columbia announced \$50 million to expand high-speed internet service to more than 200 communities in the province.

The Canadian Radio-television and Telecommunications Commission also recently launched its own five-year \$750 million Broadband Fund to improve internet access in underserved areas. The CRTC's Broadband Fund aligns with the Government's priorities and will include a focus on providing last-mile connectivity and provision of wireless coverage in unserved areas, and where projects are not financially viable without CRTC funding.

The Government recognizes that collaboration is essential to solve the challenge of bringing universal access to high-speed internet to all Canadians. To this end, the Government is committed to continue working with jurisdictions across Canada, Indigenous partners, and the private sector to enhance connectivity and to support Canadians full participation in the digital economy. This includes advancing the recent intergovernmental agreement between the federal, provincial and territorial governments to develop a long-term strategy and joined-up approach to improve access to high-speed internet for all Canadians.

Investing in Connect to Innovate and Launching the New Universal Broadband Fund

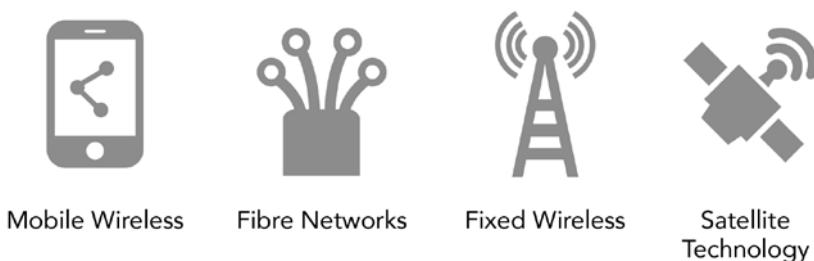
To help every Canadian gain access to high-speed internet at minimum speeds of 50/10 Mbps, Budget 2019 proposes to invest up to \$1.7 billion in new targeted initiatives that will support universal high-speed internet in rural, remote and northern communities. These investments would include:

- Up to \$1.7 billion over 13 years, starting in 2019–20, to establish a new national high-speed internet program, the **Universal Broadband Fund**. The Fund would build on the success of the Connect to Innovate program, and would focus on extending “backbone” infrastructure to underserved communities (“backbone” is the central channel used to transfer internet traffic at high speed—the internet equivalent of a major roadway or railway spur). For the most difficult-to-reach communities, funding may also support “last-mile” connections to individual homes and businesses.
- Included in the \$1.7 billion commitment to the Universal Broadband Fund, the Government will look to top-up the Connect to Innovate program and to secure advanced, new, low-latency Low Earth Orbit **satellite capacity**. This process will be launched in the spring 2019 and will help bring reliable high-speed internet access to even the most challenging rural and remote homes and communities in Canada.
- Up to \$11.5 million over five years, starting in 2019–20, for two Statistics Canada surveys to measure household access and use of the internet and business online behaviour. This will enhance understanding of how digital issues are impacting Canadians, and help inform next steps.

Harnessing Partnerships With the Canada Infrastructure Bank

In partnership with the Government, the Canada Infrastructure Bank is examining opportunities to apply its innovative financing tools to stimulate private sector investment in high-speed internet infrastructure in unserved and underserved communities. Working to maximize the contribution of private capital, the Bank will seek to invest \$1 billion over the next 10 years, and leverage at least \$2 billion in additional private sector investment to increase broadband access for Canadians. In helping to make publicly funded dollars go further, the Bank will contribute to Canada’s long-term ambition of bringing high-speed internet to every Canadian.

Figure 2.4
Technologies That Are Bringing High-Speed Internet to Canadians



Part 4: Building a Better Future for Canada's North

Every region in Canada has unique attributes that contribute to the country's current economic strength and future potential. The Arctic is a region that has immense opportunities for growth and needs investment to realize its potential, to the benefit of all Canadians.

Strong Arctic and Northern Communities

Though only a small number of people—including Indigenous and non-Indigenous people—call the Arctic home, all Canadians can be proud of our identity as a northern country. Part of what makes the region unique is its climate and geography. As harsh and challenging as it is beautiful and inspiring, the Arctic is on the front lines of global warming, and the cumulative effects of climate change are reshaping both the landscape and the way of life for many people in Canada's North.

Canada has an opportunity—and a responsibility—to be a world leader in sustainably developing the North. This means making the most of emerging economic opportunities while ensuring that the people who reside in the North are able to be full participants in and beneficiaries of the region's growth.

People living in the North have been clear: they want and deserve to be included in decisions about the future of the Arctic and other northern regions.

Meaningful action is needed so that the quality of life experienced by northern residents is, to the greatest extent possible, comparable to that experienced by people in the rest of Canada. It also means making sure that federal policies, programs, and investments take into account the unique circumstances and needs of people living in the North. This includes a greater understanding of, and respect for, the history, culture, and traditional knowledge of northern Indigenous Peoples.

Building on the Government's ongoing support for the region, Budget 2019 announces more than \$700 million over 10 years in new and focused funding to ensure that Arctic and northern communities can continue to grow and prosper. This includes new funding for more diversified post-secondary educational options in the territories, enhanced infrastructure resources to connect northern and remote communities, increased economic development programming, and more support to enable critical Arctic research.

Ongoing Support for Canada's Arctic and Northern Regions

The large, remote regions of Canada's North create unique infrastructure and energy challenges. The Investing in Canada Plan and the Pan-Canadian Framework on Clean Growth and Climate Change include initiatives to help address these challenges and create new connections in the Arctic and northern regions of Canada. Key investments include:

- More than \$1.7 billion over 12 years, for the three northern territories, for infrastructure development through bilateral agreements under the **Investing in Canada Plan**, including \$400 million for the **Arctic Energy Fund** to help people living in northern communities access more reliable and renewable energy.
- Nearly \$150 million allocated to the three territories and northern Quebec through the **Connect to Innovate** program, which brings high-speed internet to rural and remote communities in Canada.
- \$400 million over 11 years dedicated for transportation infrastructure in the three territories under the **National Trade Corridors Fund**.
- \$84 million over five years to build knowledge of climate change impacts and to enhance the **climate resiliency of northern communities** by improving the design and construction of northern infrastructure.

In addition, the Government also supports a number of long-term programs and activities in the Arctic and northern regions of the country to build healthy and safe communities and contribute to a strong, diversified, sustainable and dynamic economy. For example, to support the delivery of territorial public services, including health care, education and social services, that are comparable to those in other regions of the country, the federal government provides annually escalated and unconditional Territorial Formula Financing transfers, which will be over \$3.9 billion in 2019–20.

In December 2016, the Prime Minister announced the Government's commitment to create a new vision for Canada's Arctic and northern regions, to be co-developed in cooperation with the people who live there. Since then, the Government has been working with a number of partners, including Indigenous Peoples, territories, provinces and international stakeholders, to co-develop a new Arctic and Northern Policy Framework.

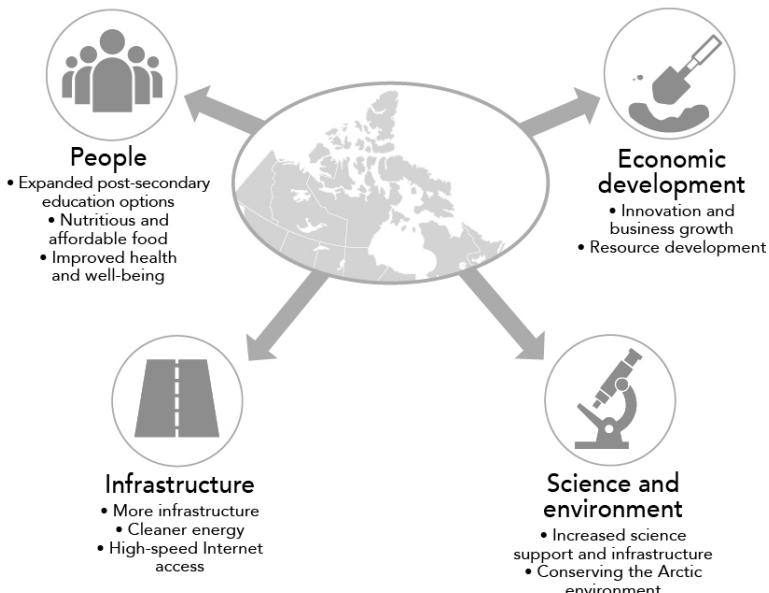
This new Framework is intended to identify shared priorities, goals, and objectives in Canada's Arctic and North, through 2030. It is also designed to be more comprehensive in scope than previous strategies, incorporating both a domestic and international understanding of the unique opportunities and challenges that exist for these regions. Ultimately, the Framework represents a new way for Arctic and northern peoples, governments, leaders, organizations, and institutions, to come together to set a consensus-based course towards better outcomes for everyone.

The Government will continue to work with its partners to finalize the Framework, set common objectives, and reach agreements on ways to collectively invest to meet these objectives. Budget 2019 proposes a number of new measures to support the eventual Framework and complement existing efforts to strengthen Arctic and northern communities.

"The simple fact is that Arctic strategies throughout my lifetime have rarely matched or addressed the magnitude of the basic gaps between what exists in the Arctic and what other Canadians take for granted"

— Mary Simon, Special Representative to the Minister of Crown-Indigenous Relations on Arctic Leadership

Figure 2.5: Support for Canada's Arctic and Northern Communities



Helping People in Arctic and Northern Communities Succeed

- Communities thrive—and people succeed—when educational opportunities exist. Budget 2019 proposes to provide up to \$1.0 million, over two years, starting in 2019–20, to establish a Task Force to study post-secondary education in Canada’s Arctic and northern regions. The Task Force will make recommendations to the federal and territorial governments and Indigenous partners on establishing a robust system of post-secondary education in the North.
- To help Yukon College undertake its transformation into a hybrid university (an institution that offers a mix of diplomas, certificates, degrees, and continuing education), Budget 2019 proposes to provide up to \$26 million over five years, starting in 2019–20, for the construction of a new campus science building in support of their efforts to become Canada’s first university in the North.
- To foster Indigenous knowledge and education, Budget 2019 proposes to provide \$13 million over five years, starting in 2019–20, for the Dechinta Centre for Research and Learning in the Northwest Territories. This funding will support the delivery of culturally appropriate and community developed curricula to enhance access to and success in higher education for Indigenous and northern students.
- To address the higher cost of nutritious food in the Arctic, in the 2018 *Fall Economic Statement* the Government announced new investments in the Nutrition North Canada program. This ongoing investment will support several program changes, and introduces a new Harvesters Support Grant to help lower the high costs associated with traditional hunting and harvesting activities. In addition, as part of a National Food Policy, Budget 2019 proposes to provide the Canadian Northern Economic Development Agency with \$15 million, over five years, starting in 2019–20, to establish a Northern Isolated Community Initiatives Fund. This fund will support community-led projects for local and Indigenous food production systems.
- The Inuit Tapiriit Kanatami’s (ITK) National Inuit Suicide Prevention Strategy was released in July 2016 and set out a series of actions and interventions at the community and regional level to address the high number of deaths by suicide among Inuit, where the suicide rate remains 5 to 25 times the national average for Canada. To continue to support Inuit and their communities, Budget 2019 proposes an investment of \$50 million over 10 years, starting in 2019–20, with \$5 million per year ongoing, to support ITK’s Inuit-specific approach through the Strategy to address deaths by suicide in Inuit communities.
- Nunavut has been without an addictions treatment centre for over 20 years. For too long, Inuit and other residents of Nunavut seeking mental health and substance use supports have had to travel south, far from their families, friends and communities to access the services that they need. The Truth and Reconciliation Commission of Canada called on the federal government to ensure funding for healing centres in Nunavut is a priority as part of Call to Action 21. Together with contributions from the Government of Nunavut and Inuit partners, as part of Budget 2019, the Government announces its commitment to support the construction and ongoing operation of a treatment facility in Nunavut.

- On February 28, 2019, the Prime Minister announced \$2.05 billion, over 24 years, to ensure that Canada continues to be a leader in space robotics. This investment includes up to \$14 million over five years, starting in 2019–20, to the Canadian Space Agency to identify opportunities where space, health and Indigenous partners could work together to develop approaches and innovative technology solutions to address challenges common to both deep space and remote health care environments.

Building Connections in Canada's Arctic and Northern Regions

- To improve and expand infrastructure in the northern regions of Canada, Budget 2019 proposes to increase the allocation of the National Trade Corridors Fund to Arctic and northern regions by up to \$400 million over eight years, starting in 2020–21, bringing the total allocation to these regions to \$800 million. This will help build new roads and other vital connections to and between Arctic and northern communities.
- Access to reliable and cleaner sources of energy is key to building healthier and more sustainable communities. The Government is committed to reducing community reliance on diesel for heat and electricity across the North, and presently supports the planning of clean energy projects in small communities and the territories through the Investing in Canada Infrastructure Program. To help northern communities more easily access the support they need, the Government proposes to consolidate federal programs that help reduce diesel reliance in Indigenous, northern and remote communities.
- To reduce pollution in Canada's North resulting from electricity generation, Budget 2019 proposes to provide a further \$18 million, over three years, starting in 2019–20, to Crown-Indigenous Relations and Northern Affairs Canada to support planning by the Government of Northwest Territories for its proposed Taltson hydroelectricity expansion project. The proposed expansion would more than double current hydroelectric capacity in the Northwest Territories, reducing reliance on diesel by the city of Yellowknife and the mining sector, as well as providing employment opportunities for Indigenous people and other residents of the territory.
- Budget 2019 proposes to establish a national connectivity target in which every Canadian home and small business will have access to internet speeds of at least 50/10 Mbps within the next 10 years, no matter where they are located in the country, including in the North. Delivering high-speed internet to every Canadian, especially in more rural and remote areas, will help businesses grow, create new jobs and connect more people to the resources, services and information they need to build a better future.

Restoring Rail Service to Churchill, Manitoba

In the last several months the Government has provided over \$100 million in funding for the acquisition, repairs and an annual operating subsidy required by the Hudson Bay Railway Company, the Hudson Bay Port Company and the Churchill Marine Tank Farm, along with financing through Export Development Canada. This has restored rail service on the Hudson Bay Railway Line, which is expected to grow into a key transportation and export hub, to both international markets and northern Canada.

Supporting Northern Innovation and Economic Development

- The Canadian Northern Economic Development Agency helps to develop a diversified, sustainable, and dynamic economy across Canada's three territories. To support innovation and encourage stronger business growth in the territories, Budget 2019 proposes to provide an additional \$75 million over five years, starting in 2019–20, to the Canadian Northern Economic Development Agency to enhance its current economic development program. This investment would help to create a new initiative: Inclusive Diversification and Economic Advancement in the North (IDEANorth). This updated programming will allow the agency to support a wider range of initiatives, including the development of foundational economic infrastructure such as roads or visitor centres, to address the higher cost of doing business in the North.
- Resource development provides jobs and wealth in the territorial economies. The Government announced in the *2018 Fall Economic Statement* the extension of the Mineral Exploration Tax Credit, which helps junior exploration companies raise capital to finance early-stage mineral exploration, including in the North, for an additional five years, until March 31, 2024.

Supporting Science and Protecting the Environment

- The Polar Continental Shelf Program provides critical logistics support—such as coordinating air charters and supplying field equipment—to Canadian researchers seeking to advance our understanding of the North. Budget 2019 proposes to provide Natural Resources Canada with up to \$10 million, over two years, starting in 2019–20, to help the Program to respond to growing demand.
- To support ongoing scientific research in the High Arctic, Budget 2019 proposes to provide Environment and Climate Change Canada with up to \$21.8 million over five years, starting in 2019–20, for the Eureka Weather Station on Ellesmere Island, Nunavut. This investment will support critical repairs and necessary upgrades to the station's systems such as the aircraft runway, sewage, ventilation and plumbing and will help ensure continued safe operations of the site for weather and climate forecasting and as a key hub for Arctic research and Government military operations.
- The Government manages a number of contaminated sites in northern Canada that were formerly mines and since abandoned by their previous owners. The contamination of these properties is the result of private sector mining and oil and gas activities from many years ago, before the environmental impacts were fully understood. To clean up the largest and most high-risk of these sites, Budget 2019 proposes to provide \$49.9 million over fifteen years (\$2.2 billion on a cash basis), starting in 2020–21, to Crown-Indigenous Relations and Northern Affairs Canada to create the Northern Abandoned Mine Reclamation Program.

- The Government is exploring the potential creation of a marine conservation area in the High Arctic Basin or Tuvaliuittuq (which means “the ice never melts” in Inuktitut)—the last portion of the Arctic region expected to retain summer sea ice until at least 2050. The Government will work with the Government of Nunavut and Qikiqtani Inuit Association to advance this important conservation initiative, while also working to support the development of a conservation economy in the region.
- To further strengthen Canada’s leadership in the Arctic, Budget 2019 proposes to provide Natural Resources Canada with up to \$7.9 million over five years, starting in 2019–20, to continue to provide scientific support for Canada’s claim to its continental shelf in both the Arctic and Atlantic Oceans. This will ensure that Canada’s sovereign rights in the Arctic Ocean are internationally recognized, with a strong claim supported by science and evidence.

Investing in Regional Priorities

Protecting Water and Soil in the Prairies

In recent years, Canada’s Prairie provinces have experienced the worsening effects of climate change, including more extreme weather events, resulting in more costly storms and floods, droughts and wildfires. Billions of dollars have been spent by all orders of government—including Indigenous governments—along with businesses, private citizens, and the insurance industry, in an attempt to recover from these events. At the federal level, the Disaster Financial Assistance Arrangement has paid out more to help offset flood and wildfire losses in the last six years than in the entire previous history of the program—stretching back to 1970.

More than just the financial impacts of recovery, the ongoing effects of climate change on the Prairies’ valuable water and soil resources threaten the ability of farmers and ranchers to continue to grow high-quality crops and raise world-class herds—putting the future of Prairie communities and Canada’s food supply at risk.

To support climate change adaptation efforts across the Prairies, the Government proposes to provide Western Economic Diversification Canada with up to \$1 million, in 2019–20, to develop a new strategy to sustainably manage water and land in the Prairies. This strategy would be developed in partnership with the provinces of Alberta, Saskatchewan and Manitoba, as well as Indigenous partners, academics and private sector groups. It would take stock of existing federal and provincial actions that address the impact of climate change on water and land resources, to help ensure greater resilience in Prairie communities for years to come.

Investing in Eastern Canada Ferry Services

In 2017–18, federally funded ferry services in eastern Canada helped move more than 800,000 passengers and 100,000 commercial vehicles. Canada supports inter-provincial ferry services in eastern Canada by providing funding to Marine Atlantic Inc., a Crown corporation operating ferries between Nova Scotia and Newfoundland and Labrador, and Transport Canada’s Ferry Services Contribution Program, linking Saint John, New Brunswick, to Digby, Nova Scotia; Wood Islands, Prince Edward Island, to Caribou, Nova Scotia; and Îles de la Madeleine, Quebec, to Souris, Prince Edward Island.

 To maintain safe and reliable ferry services, Budget 2019 proposes to:

- Support Marine Atlantic Inc. to modernize its fleet through the procurement of a new ferry.
- Extend Transport Canada's Ferry Services Contribution Program until 2022 with existing service levels and fleet size, which includes ensuring two vessels operate between Prince Edward Island and Nova Scotia.
- Procure two ferries to replace the *MV Madeleine*, operating between Quebec and Prince Edward Island, and the *MV Holiday Island*, operating between Prince Edward Island and Nova Scotia.

Improving Crossings in Canada's Capital Region

Interprovincial bridge crossings serve as important links between the cities of Ottawa, Ontario, and Gatineau, Quebec—helping people get back and forth to work, serving as a key transportation route and providing access to both cities for tourists and locals travelling by car, by bicycle or on foot. The five interprovincial crossings carry close to 150,000 vehicles and 9,000 pedestrians and cyclists each day, an increase of over 15,000 since 2015 alone. These bridges are aging, with the newest bridge having been opened in 1973, and were built in an era when the National Capital Region had a much smaller population, fewer interprovincial commuters and far less congestion due to truck traffic.

 To ensure that these interprovincial crossings remain safe and open for residents and visitors, Budget 2019 proposes to:

- Replace the Alexandra bridge as it is now more than 100 years old and needs to be replaced. The new Alexandra Bridge will provide long-lasting economic benefits to the communities on each side of the Ottawa River and more broadly to the region as a whole.
- Address the demonstrated need for an additional National Capital Region crossing by refreshing existing studies and developing a long-term integrated interprovincial crossing plan led by the National Capital Commission with both provincial governments and the cities of Gatineau and Ottawa.
- Support the rehabilitation and ongoing maintenance of National Capital Region crossings, including the Chaudière and MacDonald-Cartier bridges by providing up to \$80.4 million over 10 years.

Part 5: Building a Nation of Innovators

Canadians are innovators—constantly seeking answers to difficult questions and always looking for new ways to apply what we've learned. That curiosity and creativity built the industries and created the jobs that gave rise to Canada's strong and successful middle class, and Canadians' innovative spirit continues to change our country—and our world—for the better.

Canada's Innovation and Skills Plan

Launched in 2017, the Government's Innovation and Skills Plan is helping Canadian businesses to start up, scale up, and become globally competitive. The Plan is an ambitious effort to help create good well-paying jobs by making Canada a world leader in innovation—and it's already delivering results:

- **Five industry-led innovation superclusters** are now up and running, supported by a \$950-million federal investment. These superclusters—in digital technologies, food production, advanced manufacturing, artificial intelligence in supply chain management, and ocean industries—are expected to create 50,000 jobs and add \$50 billion to the economy over the next 10 years. They bring together more than 450 businesses, 60 post-secondary institutions, and 180 other partners to generate new ideas, attract and develop talent, collaborate on research, develop new intellectual property and bring new products to market here in Canada and around the world.
- **The Strategic Innovation Fund** is a new approach to supporting business innovation, and investments across the country and in all economic sectors. In the last two years, the Fund has proven successful in attracting and supporting high-quality and innovative business investment in Canada. As of January 2019, the Fund had secured 31 investment agreements from leading researchers and manufacturers, worth a total of \$8.1 billion, including a federal investment of \$795 million. This shared investment is expected to help secure 50,000 good, well-paying jobs over the next 22 years.
- **Innovative Solutions Canada** was launched in December 2017 and provides a novel procurement approach to allow the Government of Canada to partner with Canadian entrepreneurs in the development of early stage, pre-commercial innovation. Twenty participating federal departments and agencies issue challenges, designed around desired outcomes, seeking novel technologies, products and process solutions, in order to address federal government needs. The program will dedicate over \$100 million per year in spending by the end of March 2020. To date, Innovative Solutions Canada has launched 42 challenges in areas such as sustainable fishing and aquaculture, high energy lasers, and plant pest detection.
- Recognizing the importance of ideas in the knowledge economy, the Government put forward the first **Canadian National Intellectual Property Strategy** in Budget 2018. In the coming months, the Government will be selecting the proponent to manage a pilot Patent Collective, which will help Canadian start-ups and small and medium-sized enterprises pool together vital intellectual property assets to help them grow and expand internationally, in the technology areas of tomorrow.

Building New Partnerships and Superclusters: The Protein Industries Supercluster

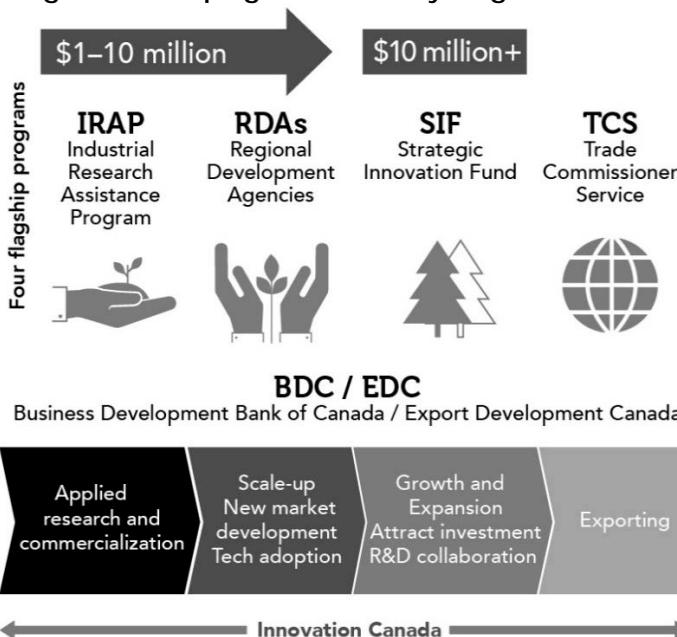
Canada has a well-deserved reputation as a country that produces high-quality, innovative agricultural products. Building on this success, the Protein Industries Supercluster was established to apply plant genomics and new processing technologies to increase the value of key Canadian crops, including plant-based meat alternatives—such as pulses and flax-based proteins—that are in high demand in foreign markets. The Government's investment of \$153 million in this Supercluster will help Canada become a leading source of plant proteins and, ultimately, feed the world.

- \$4.5 billion: the estimated contribution of this Supercluster to Canada's GDP over 10 years.
- 4,500: the number of jobs expected to be created by this Supercluster over 10 years.

Promoting the Development of World-Class Canadian Businesses

When Canadian businesses innovate, they succeed—creating good, well-paying jobs for the middle class in communities all across the country. Helping businesses find the talent they need to innovate and grow, supporting small companies, and giving entrepreneurs the support they need to succeed—these are just some of the ways the Government is investing in innovative Canadians.

Figure 2.6: Helping Firms at Every Stage of Growth



Establishing a Permanent Global Talent Stream

Canada's Global Skills Strategy, announced in the 2016 *Fall Economic Statement*, helps Canadian businesses attract the talent they need to compete and succeed in the global marketplace. Whether recruiting professionals from around the world to help train Canadian workers, or giving employers the assistance they need to invest and create more good, well-paying jobs in Canada, the Global Skills Strategy gives businesses a faster, more predictable way to bring global talent to Canada.

As part of the Global Skills Strategy, a two-year pilot project was introduced to help innovative Canadian firms quickly access the highly skilled global talent they need to scale-up, grow and help create jobs for Canadians. Since the launch of the pilot in 2017, employers have made commitments to:

- create more than 40,000 new jobs for Canadians and permanent residents;
- develop over 10,000 co-op placements; and,
- invest over \$90 million in skills development and training for their workers.

 Building on the success of the Global Talent Stream pilot, Budget 2019 proposes to make the Global Talent Stream a permanent program. A permanent Global Talent Stream will give Canadian businesses expedited, predictable access to top global talent when Canadian workers are unavailable. To establish this new permanent program, Budget 2019 proposes to invest \$35.2 million over five years, beginning in 2019–20, with \$7.4 million per year ongoing.

"The Global Skills Strategy is helping employers recruit and employ high skilled workers. We are attracting some of the most highly skilled people of the world now through our Global Skills Strategy. There was a time when Canada used to lose its most talented individuals and now we're getting people coming this way because of our immigration system."

— The Honourable Ahmed Hussen, Minister of Immigration, Refugees and Citizenship

The Global Talent Stream is available to:

Category A: Employers referred by Designated Referral Partners	Category B: Employers seeking to hire highly skilled foreign workers for occupations found on Employment and Social Development Canada's Global Talent Occupations List
Designated Referral Partners include provincial and municipal governments and regional development agencies.	The Global Talent Occupations List includes occupations for which there are demonstrable shortages in Canada, including information technology(IT) and science, technology, engineering and mathematics(STEM) occupations.
Canadian companies applying for workers through the Global Talent Stream receive: <ul style="list-style-type: none">• Client-focused service to help them throughout the application process.• Flexible recruitment requirements.• Expedited processing of Labour Market Benefit Plans and work permits (10 business days, compared to an average of two months to complete the Labour Market Impact Assessment process).	

How Canada's Global Talent Stream Is Working

Sharing knowledge with Canadian workers: Vancouver-based Terramerra used the Global Talent Stream to quickly hire an international expert in microscopic worms when they were unable to find the right skills in Canada. The scientist is helping Terramerra develop innovative environmentally safe bio-pesticides, while providing on-the-job training to colleagues and co-op students from the University of British Columbia and Simon Fraser University. He is also sharing his knowledge and expertise with Canadian academics, who will in turn transfer this knowledge to the universities' students—Canada's future scientists.

Creating jobs for Canadians: Toronto-based financial technology firm Wave has leveraged the Global Talent Stream to add two experienced software engineers and a global leader in the financial technology sector to their team. Hiring specific, skilled workers helped the company grow quickly and as a result, they have created dozens of new jobs in technology that employ Canadian workers.

Helping Canadian companies innovate: Ottawa's Shopify, a world leader in e-commerce, has used the Global Talent Stream to add international tech expertise to its Canadian workforce to continue to advance its innovative platform and reach global markets.

Improving Support for Small, Growing Companies

The Scientific Research and Experimental Development (SR&ED) Tax Incentive Program encourages business innovation by providing an investment tax credit for businesses of all sizes, in all sectors, that conduct scientific research and experimental development in Canada. In a global economy where knowledge and ideas are key, the innovation of Canadian firms will be a competitive advantage. The SR&ED Tax Incentive Program is often cited as a significant source of support by Canada's innovative firms, as it provides a 35-per-cent refundable tax credit to eligible small and medium-sized businesses and a 15-per-cent tax credit to all businesses performing SR&ED in Canada. Access to the 35-per-cent rate is determined by a business' level of income and capital.

One challenge often cited by entrepreneurs who use the SR&ED program to grow their firm relates to how the incentive changes based on the growth of their business.

To better support growing innovative businesses as they are scaling up, the Government proposes to eliminate the income threshold for accessing the enhanced credit. This will ensure continued enhanced support for small and medium-sized innovative businesses that are experiencing rapid growth in income or may have variable income from year to year: that is, at the exact time when continued Government support can help take a business to the next level. The capital threshold will continue to apply to ensure that the enhanced rate remains targeted toward small and medium-sized businesses. This change will build on other major initiatives put forward by the Government to help make Canada a leader in science and innovation, creating the jobs of tomorrow and building globally leading businesses.

Supporting the Next Generation of Entrepreneurs

Futurpreneur Canada is a national not-for-profit organization that provides young entrepreneurs with mentorship, learning resources and start-up financing to help them bring their business ideas to market. Over the past two decades, Futurpreneur Canada's core program has helped more than 11,400 young entrepreneurs launch nearly 9,600 new businesses. Last year, more than 40 per cent of the businesses supported by Futurpreneur Canada were owned by women—more than double the national average.

To help Futurpreneur Canada continue its efforts to support the next generation of entrepreneurs, Budget 2019 proposes to provide Futurpreneur Canada \$38 million over five years, starting in 2019–20. Futurpreneur Canada will match these investments with funding received from other government and private sector partners, and it is expected that this renewed investment would help support the work of approximately 1,000 young entrepreneurs per year.

This funding includes \$3 million over five years for Futurpreneur Canada to provide targeted support to Indigenous entrepreneurs. This will allow Futurpreneur Canada to engage up to 7,250 Indigenous youth through outreach, access to business support tools and training as well as support up to 175 additional Indigenous businesses. Additional measures targeting support to Indigenous entrepreneurs can be found in Chapter 3.

Helping Canada's Forest Sector Innovate and Grow

Canada's forest sector is an important source of jobs and growth for more than 100 communities across the country, directly employing almost 210,000 people and contributing more than \$24 billion to the Canadian economy in 2017. The sector currently faces significant challenges, including threats to supply caused by more forest fires and other disturbances such as pest infestations, which are decreasing the availability of wood fibre, and ongoing disputes with significant trading partners.

At the same time, there are tremendous opportunities available for Canada's forest sector to capitalize on global growth in the bioeconomy, which is expected to grow to as much as \$5 trillion on an annual basis by 2030. Technological advancements are boosting the demand for wood fibre in markets around the world, giving the Canadian forest sector an opportunity to emerge as a supplier of choice—aided by its own strong drive to innovate, as seen in the development of greener construction materials for use in high-rise construction and the use of wood-based by-products to replace more carbon-intensive fuels.

What Is the Bioeconomy?

In the bioeconomy, renewable and sustainably sourced biomass resources—such as trees, agricultural crops and organic materials left over from harvesting and timber processing—are used to provide a broad range of consumer and industrial products, such as food additives, textiles, bioplastics and auto parts. (Source: 2018 State of the Forest Report, Natural Resources Canada).

To help Canada's forest sector continue to innovate and grow, Budget 2019 proposes to invest up to \$251.3 million over three years, starting in 2020–21, to Natural Resources Canada to extend existing innovation and diversification programs. An emphasis will be placed on those programs that have strong track records of success and that leverage private sector investment. This proposed investment would include:

- Up to \$91.8 million over three years for the **Forest Innovation Program**, to support pre-commercial research and development, positioning the Canadian forest sector at the forefront of the emerging bioeconomy.
- Up to \$82.9 million over three years for the **Investments in Forest Industry Transformation** program, to support the industrial commercialization and adoption of innovative technologies and processes, contributing to clean economic growth and jobs.
- Up to \$64.0 million over three years for the **Expanding Market Opportunities Program**, to increase and diversify market opportunities for Canadian forest products in offshore markets, and expand wood use in non-residential and mid-rise construction, including within Canada.
- Up to \$12.6 million over three years for the **Indigenous Forestry Initiative**, to support forest-based economic development for Indigenous communities across Canada.

Natural Resources Canada will, with existing resources, revise the project selection criteria and results tracking for this suite of programming to include requirements to address gender and other representation gaps within the forest industry.

Supporting Innovation and Market Diversification in Canada's Forest Sector: Success Stories

Investing in Renewable Fuel Technology

Bioenergy AE Côte-Nord (Côte-Nord, Quebec), a partnership between Arbec Forest Products and Ensyn, has built the world's first commercial facility using technology designed specifically for the conversion of forest residues to liquid renewable fuel oil for energy applications. Through \$17.5 million in funds from the Investments in Forest Industry Transformation program, announced in 2016, 30 direct jobs have been created, and a new liquid forest bioenergy product that reduces greenhouse gas emissions is now available for sale across North America.

Supporting the Creation of Value-Added Wood Products

Corruven Canada Inc. (Edmunston, New Brunswick) is leading on the creation of smart and sustainable building material, furniture and packaging. With \$2.5 million in support from the Investments in Forest Industry Transformation Program, announced in 2016, Corruven was able to design and manufacture a new production line of composite high-performance wood, using rejected wood fibre, creating 13 jobs to date and developing new markets for its products, both within Canada and abroad.

Supporting Innovation in the Oil and Gas Sector Through Collaboration

The Government is committed to helping bring together Canada's research expertise with businesses that are seeking to seize growth opportunities and address challenges through the development, demonstration and adoption of innovative technologies and processes. Budget 2018 identified the Strategic Innovation Fund as a flagship "platform" within the Government's business innovation toolkit, and announced that the program's role in advancing research and development through collaboration between academia, not-for-profits and the private sector would be expanded.

The Clean Resource Innovation Network is a consortium made up of companies of all sizes, innovators, not-for-profits, and academic institutions. These organizations are working together to accelerate the development and adoption of innovative technologies and processes that seek to lower the oil and gas industry's environmental impacts, such as by reducing water and land use, applying new technologies to land and wellsite remediation and reducing greenhouse gas emissions.

 Budget 2019 proposes to provide a further \$100 million over four years, starting in 2019–20, to the Strategic Innovation Fund, leveraging private sector co-investments, in order to support the activities of the Clean Resource Innovation Network.

By developing ground-breaking clean tech and emission-lowering solutions through collaboration, the Network will support economic growth, will create good, well-paying jobs, and will lead to cleaner energy production from source to end use.

Investing in a Diverse and Growing Western Economy

Almost one third of Canadians call British Columbia, Alberta, Saskatchewan and Manitoba home. Western Canada is well positioned to continue to prosper from its unique strengths and advantages, including its growing digital economy, abundant natural resources, and innovative post-secondary institutions and research facilities. The strategic proximity to Asian markets also creates significant opportunities for the region's world-class energy, agriculture and agri-food sectors.

The Government is presently working with business, industry, academia, Indigenous communities and organizations, and other levels of government, to develop a Western Canada Growth Strategy which will reflect the unique regional advantages of each province, and help to stimulate economic growth, incent innovation, increase the participation of under-represented groups and attract investment.

 To support the creation of a more resilient, inclusive and diversified economy in the west, Budget 2019 proposes to provide \$100 million over three years (on a cash basis), starting in 2019–20, to Western Economic Diversification Canada to increase its programming in western Canada.

Launching a Federal Strategy on Jobs and Tourism

Tourism in Canada is strong and growing. Last year Canadian communities of all sizes welcomed more than 21.1 million international visitors—boosting economic growth and creating good, well-paying jobs across the country. Canada's tourism sector is an important source of jobs and growth, employing over 750,000 people and contributing about 2 per cent to Canada's GDP. Recognizing the importance of tourism to Canada's overall economy, the Government is developing a new Federal Strategy on Jobs and the Visitor Economy.

 To help Canada's tourism sector innovate and grow, Budget 2019 proposes to provide \$58.5 million over two years, starting in 2019–20, to the Regional Development Agencies for the creation of a Canadian Experiences Fund. The Fund would support Canadian businesses and organizations seeking to create, improve or expand tourism-related infrastructure—such as accommodations or local attractions—or new tourism products or experiences. These pan-Canadian investments would focus on five categories: tourism in rural and remote communities, Indigenous tourism, winter tourism, inclusiveness, specifically for the LGBTQ2 community, and farm-to-table tourism, which is also known as culinary tourism.

 In addition, Budget 2019 proposes to provide \$5 million to Destination Canada for a tourism marketing campaign that will help Canadians to discover lesser-known areas, hidden national gems and new experiences across the country. Destination Canada is Canada's signature tourism agency that collaborates with partners to promote Canada as a premier tourism destination.

 To further prioritize Canada's tourism sector, Budget 2019 also proposes to create a seventh Economic Strategy Table dedicated to tourism. The Economic Strategy Tables bring together government and industry leaders to identify economic opportunities and help guide the Government in its efforts to provide relevant and effective programs for Canada's innovators. The Tables set ambitious growth targets, identify sector-specific challenges and bottlenecks, and lay out strategies to help innovators achieve their goals.

Budget 2019 tourism funding will complement existing and ongoing investments aimed at driving growth in the tourism sector. For instance, Budget 2017 provided Destination Canada with permanent funding of \$95.5 million per year for tourism-related work, and significant funding is also made available through Canada's six Regional Development Agencies, which support local businesses, including tourism. Since 2016, Regional Development Agencies have allocated over \$196 million to tourism businesses. The Business Development Bank of Canada is another important source of support for Canada's tourism industry, having provided more than \$1.4 billion in financing since 2016, and tourism businesses are also supported by Export Development Canada, which assists Canadian tourism businesses that wish to expand into global markets.

How Tourism Supports Rural Canada: Success Story

Fogo Island, Newfoundland and Labrador, was an isolated fishing village of 2,300 prior to the establishment of one of Canada's most highly regarded tourism companies: The Fogo Island Inn. Federal, provincial and private investments played an important role in the development of the Fogo Island Inn, which now generates annual profits that are funnelled back into the community.

Funding from the Inn and its charity have led to spillover for the local economy, helping to create jobs and supporting business start-ups. The Inn has also attracted nationally-known chefs who have built Fogo Island's brand as an authentic culinary destination that sources its food from local Newfoundland suppliers and farmers. The success of the Fogo Island Inn has raised the profile of the province and the Atlantic region as an international tourism destination.

Canada Reaches for the Moon and Beyond

Space exploration represents the very essence of innovation. It inspires all of us to push the limits of what is possible and makes Canadians proud of what we can achieve.

As we approach the 50th anniversary after the 1st Moon landing, space exploration is entering a new chapter—and Canada will play a big role in it. Canada will be a partner in the NASA-led Lunar Gateway—a project that will see humans return to the Moon and set the stage for further exploration to Mars—by developing the robotic systems for the Lunar Gateway, including a third generation artificial intelligence-enabled Canadarm. The Canadarm is Canada's most famous robotic and technological achievement and established Canada's international reputation for robotics innovation, inspiring generations of scientists and engineers as they develop new technologies for industry, medicine, and other applications. The Canadarm for the Lunar Gateway will be an integral piece of the station required to maintain, repair, and inspect the Gateway as well as support spacewalks and assemble and deploy scientific instruments.

Developing technology for the International Space Station has allowed Canadian companies to become world leaders in space robotics. These innovations have translated to real-world applications such as medical robots for neurosurgery, pediatric surgery and breast-cancer detection, and robots that can be used to safely inspect nuclear reactors.

Canada's contributions to the Lunar Gateway will build on Canada's world-leading capabilities in robotics and further strengthen space companies in Canada, notably in Quebec which is home to many first-rate space companies. Canada's contribution will also create opportunities for Canadian participation in future exploration missions to the Moon and open opportunities for additional Canadian astronaut flights.

To support these efforts, on February 28, 2019, the Prime Minister announced an investment of \$2.05 billion over 24 years to ensure that Canada continues to be a leader in space robotics. This investment includes \$150 million over five years, starting in 2019–20, for a Lunar Exploration Accelerator Program that will help small and medium-sized enterprises develop new technologies to be used and tested in lunar orbit and on the Moon's surface in fields that include artificial intelligence, robotics, and health.

Through this funding, the Government is supporting future generations of innovators and explorers, and ensuring that Canadians are well-positioned to lead and succeed in the jobs and industries of tomorrow.

Bringing Innovation to Regulations

Simply put, regulations are rules that stipulate how businesses must operate. When they are effective, they contribute to the protection of health, safety, security and the environment. They also support innovation, productivity and competition by establishing the rules for fair markets and a predictable environment for businesses, reducing barriers to trade and fostering new investment. While the OECD Regulatory Policy Outlook (2018) has again ranked Canada in the top five jurisdictions on many key measures of regulatory governance, recent reports from panels convened to advise the Government, such as the Advisory Council on Economic Growth and the Economic Strategy Tables, have called for Canada to take steps to change how we design and administer regulations. The Government is responding.

In Budget 2018, the Government announced its intention to review regulatory requirements and practices that impede innovation and growth in the following high-growth sectors:

- Agri-food and aquaculture.
- Health and bio-sciences.
- Transportation and infrastructure.

The 2018 Fall Economic Statement continued this work, proposing additional ways to reform and modernize federal regulations, with an emphasis on making it easier for businesses to grow while continuing to protect Canadians' health and safety and the environment. As a next step, Budget 2019 introduces the first three "Regulatory Roadmaps" to specifically address stakeholder issues and irritants in these sectors, informed by over 140 responses from businesses and Canadians across the country, as well as recommendations from the Economic Strategy Tables.

In a turbulent world of digital disruption and growing global trade, regulatory measures can both serve the public interest and encourage innovation. But to achieve this balance, we need to regulate differently than we have in the past.

— Advisory Council on Economic Growth, 2017

Introducing Regulatory Roadmaps

These Roadmaps lay out the Government's plans to modernize regulatory frameworks, without compromising our strong health, safety, and environmental protections. They contain proposals for legislative and regulatory amendments as well as novel regulatory approaches to accommodate emerging technologies, including the use of regulatory sandboxes and pilot projects—better aligning our regulatory frameworks with industry realities.

 Budget 2019 proposes the necessary funding and legislative revisions so that regulatory departments and agencies can move forward on the Roadmaps, including providing the Canadian Food Inspection Agency, Health Canada and Transport Canada with up to \$219.1 million over five years, starting in 2019–20, (with \$0.5 million in remaining amortization), and \$3.1 million per year on an ongoing basis.

In the coming weeks, the Government will be releasing the full Regulatory Roadmaps for each of the reviews, as well as timelines for enacting specific initiatives, which can be grouped in the following three main areas:

1. Creating a user-friendly regulatory system:

The Roadmaps propose a more user-friendly regulatory system, including the use of more digital services (e.g. online portals, electronic templates), and clearer guidance for industry so that innovative and safe products are available for Canadians more quickly.

2. Using novel or experimental approaches:

The Roadmaps propose greater exploration, innovation, and the use of sandboxes and pilot programs for new and innovative products. This will allow these products to be approved for use in a risk-based and flexible way—encouraging ongoing innovation while continuing to protect Canadians' health and safety, and the environment.

3. Facilitating greater cooperation and reducing duplication:

The Roadmaps propose greater alignment and coordination within the federal government and across Canadian and international jurisdictions.

What Is a Regulatory Sandbox?

Regulatory sandboxes are controlled "safe spaces" in which innovative products, services, business models and delivery mechanisms can be tested without immediately being subject to all of the regulatory requirements.

— European Banking Authority, 2017

Real Improvements for Business

Digitizing Canadian Food Inspection Agency services	The Canadian Food Inspection Agency currently relies on a paper-based system for issuing export certificates. As a result, Canadian exporters are required to submit forms by mail and wait for those forms to be returned prior to exporting their products. When Canadian firms are allowed to complete the application process online and have their reviewed forms returned electronically, Canadian business owners will be able to export their products more rapidly.
Updating the Canadian grains legislative and regulatory frameworks	The <i>Canada Grain Act</i> has not been substantially updated in decades, and its requirements are not aligned with current market realities. A broad-based review of the Act, and of the operations of the Canadian Grain Commission, will be undertaken to address a number of issues raised by the Canadian grain industry, including redundant inspections and issues within the current grain classification process that unnecessarily restrict Canadian grain exporters.
Establishing a regulatory sandbox for new and innovative medical products	The regulatory approval system has not kept up with new medical technologies and processes. Health Canada proposes to modernize regulations to put in place a regulatory sandbox for new and innovative products, such as tissues developed through 3D printing, artificial intelligence, and gene therapies targeted to specific individuals.
Modernizing the regulation of clinical trials	Industry and academics have expressed concerns that regulations related to clinical trials are overly prescriptive and inconsistent. Health Canada proposes to implement a risk-based approach to clinical trials to reduce costs to industry and academics by removing unnecessary requirements for low-risk drugs and trials. The regulations will also provide the agri-food industry with the ability to carry out clinical trials within Canada on products such as food for special dietary use and novel foods.
Enhancing the road safety transfer payment program	Road safety and transportation requirements vary among Canadian provinces and territories, creating barriers and inefficiencies for businesses that transport goods by road. Transport Canada will support provinces and territories in working towards improved alignment of these requirements, including for the use of autonomous and connected vehicles. Funding would be made available to other stakeholders, such as academia and industry associations, to identify innovative road safety options, including for emerging technologies.

Real Improvements for Business

Introducing a regulatory sandbox for dangerous goods electronic shipping documents	Currently, shipments of dangerous goods in Canada must be accompanied by paper documentation which can be burdensome and inefficient for businesses. Under this initiative, Transport Canada would work with industry, American counterparts and provincial/territorial jurisdictions to identify options for the sharing of shipping documents by electronic means, based on existing technologies.
Removing federal barriers to the interprovincial trade of alcohol	To facilitate internal trade, the Government intends to remove the federal requirement that alcohol moving from one province to another be sold or consigned to a provincial liquor authority. Provinces and territories would continue to be able to regulate the sale and distribution of alcohol within their boundaries.

■ To ensure that these Roadmaps can be implemented in a timely manner, Budget 2019 proposes to provide up to \$67.8 million over five years, starting in 2019–20, for Justice Canada resources. These funds will strengthen the Government’s capacity to draft the legislative and regulatory changes needed to facilitate a new approach to regulations in these sectors and others.

Harmonizing Regulations

When regulations are more consistent between jurisdictions, Canadian companies are better able to trade within Canada and beyond, while also giving Canadian consumers greater choice. The Government is working with provinces and territories to better harmonize regulations across provincial and territorial boundaries, opening up the door to more seamless internal trade. Canada also has an opportunity to harmonize regulations with its international trading partners, making Canada an even more attractive place to invest in and grow a business. The Government does this through a number of regulatory cooperation bodies, for example, the Canadian Free Trade Agreement Regulatory Reconciliation and Cooperation Table, the Canada-U.S. Regulatory Cooperation Council and the Regulatory Cooperation Forum of the Canada-European Union Comprehensive Economic and Trade Agreement.

■ Budget 2019 proposes to provide \$3.1 million per year in ongoing funding to the Treasury Board Secretariat, starting in 2020–21, to support its leadership of the Government’s regulatory cooperation priorities at home and abroad.

Modernizing Regulations

In the 2018 *Fall Economic Statement*, the Government announced its plan to introduce an annual modernization bill consisting of legislative amendments to various statutes to help eliminate outdated federal regulations and better keep existing regulations up to date. In Budget 2019, the Government proposes to introduce legislation to begin this work. Work also continues to identify opportunities to make regulatory efficiency and economic growth a permanent part of regulators' mandates, while continuing to prioritize health and safety and environmental responsibilities.

As part of these ongoing efforts, the President of Treasury Board will announce shortly the establishment of an External Advisory Committee on Regulatory Competitiveness, which will bring together business leaders, academics and consumer representatives from across the country, to help identify opportunities to streamline regulations and for novel regulatory approaches as well as to advise the Government on other sectors for consideration in the next round of regulatory reviews.

Safe Food for Canadians Regulations

- A recent regulatory modernization success is related to the coming into force of the new Safe Food for Canadians Regulations in January 2019. These modern regulations apply across all sectors and have introduced an outcomes-based approach to food safety regulations.

Part 6: Building Research Excellence in Canada

Canada has a strong tradition of research and discovery, and it's a Canadian desire to understand the world—to see new ideas and new possibilities come to life—that will create the industries and jobs that our children and grandchildren will be a part of when they grow up.

To support the next generation of research and researchers, the Government announced in Budget 2018 the largest ever increase in funding for fundamental research through Canada's granting councils—more than \$1.7 billion over five years. Since 2016, the Government has committed more than \$9.4 billion to support Canadian scientists and researchers, including significant investments in the cutting-edge equipment needed to make scientific breakthroughs and drive innovation.

Budget 2019 builds on these earlier investments in science excellence, delivering economic benefits while making Canada and the world a safer, healthier, better place to live.

Support for Science, Research and Technology Organizations

Canada is home to world-leading non-profit organizations that undertake research and bring together experts from diverse backgrounds to make discoveries, accelerate innovation and tackle health challenges. The Government helps support these collaborative efforts with targeted investments that return real economic and social benefits for Canadians.

 Budget 2019 proposes to make additional investments in support of the following organizations:

- **Stem Cell Network:** Stem cell research—pioneered by two Canadians in the 1960s—holds great promise for new therapies and medical treatments for respiratory and heart diseases, spinal cord injury, cancer, and many other diseases and disorders. The Stem Cell Network is a national not-for-profit organization that helps translate stem cell research into clinical applications and commercial products. To support this important work and foster Canada's leadership in stem cell research, Budget 2019 proposes to provide the Stem Cell Network with renewed funding of \$18 million over three years, starting in 2019–20.
- **Brain Canada Foundation:** The Brain Canada Foundation is a national charitable organization that raises funds to foster advances in neuroscience discovery research, with the aim of improving health care for people affected by neurological injury and disease. To help the medical community better understand the brain and brain health, Budget 2019 proposes to provide the Brain Canada Foundation's Canada Brain Research Fund with up to \$40 million over two years, starting in 2020–21. This investment will be matched by funds raised from other non-government partners of the Brain Canada Foundation.

- **Terry Fox Research Institute:** The Terry Fox Research Institute manages the cancer research investments of the Terry Fox Foundation. Budget 2019 proposes to provide the Terry Fox Research Institute with up to \$150 million over five years, starting in 2019–20, to help establish a national Marathon of Hope Cancer Centres Network. The Institute would seek matching funding through a combination of its own resources and contributions that it would seek from other organizations, including hospital and research foundations.
- **Ovarian Cancer Canada:** Ovarian Cancer Canada supports women living with the disease and their families, raises awareness and funds research. Budget 2019 proposes to provide Ovarian Cancer Canada with \$10 million over five years beginning in 2019–20 to help address existing gaps in knowledge about effective prevention, screening, and treatment options for ovarian cancer.
- **Genome Canada:** The insights derived from genomics—the study of the entire genetic information of living things encoded in their DNA and related molecules and proteins—hold the potential for breakthroughs that can improve the lives of Canadians and drive innovation and economic growth. Genome Canada is a not-for-profit organization dedicated to advancing genomics science and technology in order to create economic and social benefits for Canadians. To support Genome Canada’s operations, Budget 2019 proposes to provide Genome Canada with \$100.5 million over five years, starting in 2020–21. This investment will also enable Genome Canada to launch new large-scale research competitions and projects, in collaboration with external partners, ensuring that Canada’s research community continues to have access to the resources needed to make transformative scientific breakthroughs and translate these discoveries into real-world applications.
- **Let’s Talk Science:** Science, technology, engineering and math (STEM) are not just things we study in school—together, they are transforming all aspects of our lives, and redefining the skills and knowledge people need to succeed in a changing world. Let’s Talk Science engages youth in hands-on STEM activities and learning programs, such as science experiments, helping youth develop critical thinking skills and opening up doors to future study and work in these fields. It also helps ensure more girls—and other groups that are underrepresented in STEM—gain and maintain interest in STEM from an early age. Budget 2019 proposes to provide Let’s Talk Science with \$10 million over two years, starting in 2020–21, to support this important work.

Strengthening Canada's World-Class Physics Research

TRIUMF is a world-class sub-atomic physics research laboratory located in British Columbia, and home to the world's largest cyclotron particle accelerator. TRIUMF has played a leading role in many medical breakthroughs—such as developing alongside Canadian industrial partners new approaches to the medical imaging of diseases—and brings together industry partners, leading academic researchers and scientists, and graduate students from across Canada and around the world to advance medical isotope production, drug development, cancer therapy, clinical imaging, and radiopharmaceutical research.

 Budget 2019 proposes to provide TRIUMF with \$195.9 million over five years, starting in 2020–21, to build on its strong track record of achievements. Combined with an additional \$96.8 million from the existing resources of the National Research Council, federal support for TRIUMF will total \$292.7 million over this five-year period.

Taking a New Approach With the Strategic Science Fund

To make federal investments in third-party science and research more effective, Budget 2019 proposes to establish a new Strategic Science Fund. This new Fund will respond to recommendations that arose during consultations with third-party science and research organizations. It will operate using a principles-based framework for allocating federal funding that includes competitive, transparent processes. This will help protect and promote research excellence.

Under the Fund, the principles-based framework will be applied by an independent panel of experts, including scientists and innovators, who will provide advice for the consideration of the Government on approaches to allocating funding for third-party science and research organizations.

 Budget 2019 proposes to establish and operate the Strategic Science Fund starting in 2022–23.

This Strategic Science Fund will be the Government's key new tool to support third-party science and research organizations. Going forward, the selection of recipient organizations and corresponding level of support will be determined through the Fund's competitive allocation process, with advice from the expert panel and informed by the Minister of Science's overall strategy. The Minister of Science will provide more detail on the Fund over the coming months.

Chapter 2 - Building a Better Canada

millions of dollars

	2018– 2019	2019– 2020	2020– 2021	2021– 2022	2022– 2023	2023– 2024	Total
Part 1. Building Strong Communities							
New Infrastructure Funding for Local Communities Through a Municipal Top-Up	2,200	0	0	0	0	0	2,200
Part 1. Building Strong Communities Total	2,200	0	0	0	0	0	2,200
Part 2. Affordable Electricity Bills and a Clean Economy							
Making Zero-Emission Vehicles More Affordable	0	82	119	159	38	37	435
Less: Funds existing in the Fiscal Framework	0	0	0	-35	-37	-36	-108
Less: Funds Sourced from Existing Departmental Resources	0	-1	-1	-1	-1	-1	-5
Supporting Business Investment in Zero-Emission Vehicles	0	14	21	40	90	100	265
Reducing Energy Costs Through Greater Energy Efficiency	1,010	0	0	0	0	0	1,010
Less: Funds existing in the Fiscal Framework	0	0	0	-43	-61	-61	-165
More Connectivity = More Affordable Electricity	0	6	6	6	0	0	18
A Just Transition for Coal Power Workers and Communities	0	0	30	30	30	30	120
Less: Funds existing in the Fiscal Framework	0	0	0	-60	-30	-30	-120
Improving Canadian Energy Information	0	2	3	3	3	3	15
Part 2. Affordable Electricity Bills and a Clean Economy Total	1,010	103	179	99	32	42	1,465
Part 3. Connecting Canadians							
Access to High-Speed Internet for all Canadians	0	26	162	220	216	92	717
Part 3. Connecting Canadians Total	0	26	162	220	216	92	717

Chapter 2 - Building a Better Canada

millions of dollars

	2018– 2019	2019– 2020	2020– 2021	2021– 2022	2022– 2023	2023– 2024	Total
Part 4. Building a Better Future for Canada's North							
Strong Arctic and Northern Communities	0	23	35	61	98	138	355
Less: Funds existing in the Fiscal Framework	0	0	0	-38	-148	-148	-334
Less: Funds Sourced from Existing Departmental Resources	0	-1	-1	-1	-1	-1	-4
Northern Abandoned Mine Reclamation Program	0	0	3	3	3	3	13
Protecting Water and Soil in the Prairies	0	1	0	0	0	0	1
Improving Crossings in Canada's Capital Region	0	6	7	5	3	7	28
Less: Funds Sourced from Existing Departmental Resources	0	-1	-1	0	0	0	-2
Part 4. Building a Better Future for Canada's North Total	0	28	44	30	-45	-1	56
Part 5. Building a Nation of Innovators							
Establishing a Permanent Global Talent Stream	0	6	7	7	7	8	35
Improving Support for Small, Growing Companies	0	5	80	100	105	105	395
Supporting the Next Generation of Entrepreneurs	0	7	8	8	8	8	38
Helping Canada's Forest Sector Innovate and Grow	0	0	85	85	85	1	255
Less: Funds Sourced from Existing Departmental Resources	0	0	-1	-1	-1	-1	-4
Supporting Innovation in the Oil and Gas Sector Through Collaboration	0	10	30	30	30	0	100
Investing in a Diverse and Growing Western Economy	0	9	9	9	0	0	27
Launching a Federal Strategy on Jobs and Tourism	0	24	39	0	0	0	63
Less: Funds from Previous Budgets or Fall Statements	-6	0	0	0	0	0	-6
Bringing Innovation to Regulations	0	44	59	58	29	29	219
Part 5. Building a Nation of Innovators Total	-6	106	315	296	263	149	1,123

Chapter 2 - Building a Better Canada

millions of dollars

	2018– 2019	2019– 2020	2020– 2021	2021– 2022	2022– 2023	2023– 2024	Total
Part 6. Building Research Excellence in Canada							
Stem Cell Network	0	6	6	6	0	0	18
Less: Funds Sourced from Existing Departmental Resources	0	-6	-6	-6	0	0	-18
Brain Canada Foundation	0	0	20	20	0	0	40
Terry Fox Research Institute	0	11	20	32	39	48	150
Ovarian Cancer Canada	0	1	2	2	2	2	10
Genome Canada	0	0	32	18	23	19	92
Let's Talk Science	0	0	5	5	0	0	10
Strengthening Canada's World Class Physics Research	0	0	39	39	41	38	158
Part 6. Building Research Excellence in Canada Total	0	12	119	117	104	107	459
Chapter 2 - Net Fiscal Impact	3,204	275	818	761	571	390	6,020



CHAPTER 3

Advancing Reconciliation

Clean, safe drinking water. Homes that aren't overcrowded or unsafe. Communities that care for and support children and families, and that are able to carry on valued languages and traditions. The chance to get a good education and a good job, and have a say in how one's community is governed.

These are things that everyone in Canada should have, yet they are also things that, for too many Indigenous Peoples in Canada, remain out of reach.

Across the country, Indigenous Peoples, non-Indigenous Canadians, and the Government are working hard to improve the quality of life of First Nations, Inuit and Métis peoples. Together, we are making steady progress—advancing reconciliation and forging a new relationship based on recognition of rights, respect, cooperation, and partnership.

For example, where it took Canada more than 40 years to negotiate 40 Indigenous land and rights agreements prior to 2015, a new approach is delivering positive results for Indigenous communities. More than 75 new Recognition of Indigenous Rights and Self-Determination discussions are underway and 29 preliminary agreements have been signed.

Investments in housing, early learning and child care, health, mental health and infrastructure have all helped to close the gap between Indigenous Peoples and non-Indigenous Canadians. These investments are not only the right thing to do, but they make economic sense. The National Indigenous Economic Development Board estimates that closing the economic gaps between Indigenous Peoples and the non-Indigenous population could boost Canada's gross domestic product by 1.5 per cent each year.

There is much more work to be done to advance reconciliation, and many more steps to take.

Budget 2019 represents the next step in the ongoing path toward reconciliation and a better future for Indigenous Peoples—and all Canadians.

Part 1: Redressing Past Wrongs and Advancing Self-Determination

The Government is working closely with Indigenous Peoples to better respond to their priorities, to better support their plans for self-government, self-determination, and their work of nation rebuilding. That's why the Government has taken concrete measures to remove impediments to negotiating agreements that recognize Indigenous rights and address past grievances.

For example, Budget 2018 announced that Indigenous participation in the negotiation of comprehensive claims would no longer be contingent on the use of loans—instead, the Government would directly support groups in these negotiations through non-repayable contributions. Budget 2018 also provided \$101.5 million over five years to support Indigenous groups pursuing their own path to reconstituting their nations through a new Nation Rebuilding Program.

Budget 2019 builds on these measures to further support the priorities of Indigenous communities, to chart a path forward together with all Canadians.

Advancing Self-Determination

The Government of Canada is working with Indigenous Peoples to support them in their work to advance self-determination including self-government. For example:

- Together with the Manitoba Métis Federation, the Government of Canada co-developed a joint action plan to advance reconciliation and improve the social and economic well-being of the Manitoba Métis community, and support the Manitoba Métis Federation's transition to a self-governing Métis Government. Canada and the Manitoba Métis Federation have committed to work together to reach a self-government agreement that implements the Manitoba Métis community's vision of self-determination.
- Following 20 years of negotiations, in 2017 the Government of Canada signed a historic sectoral self-government agreement on education with 23 Anishinabek Nation First Nations. Under the agreement, participating First Nations will create the Anishinabek Education System. The agreement recognizes Anishinabek law-making powers and authorities over education on-reserve from Junior Kindergarten to Grade 12, as well as administrative control over funding for post-secondary education. This agreement will impact approximately 2,000 students on-reserve and is an important step out from under the *Indian Act* toward greater self-determination for participating First Nations.

Advancing Reconciliation by Settling Specific Claims

The Government is committed to advancing reconciliation with Indigenous Peoples and to redressing past wrongs related to Canada's failure to discharge its legal obligations to First Nations. The specific claims process helps right past wrongs and address longstanding grievances of First Nations through a voluntary process to seek resolution of claims through negotiations, rather than through the court system.

Working with First Nations, as of March 4, 2019, the Government has settled 68 specific claims since November 2015—more than a 40 per cent increase over the number of specific claims settled in the previous three and a half years (2012–2015). However, there is more work to do.

 The current funding to support the settlement of specific claims was to expire in March 2019. To support negotiated settlements of specific claims in a timely way, Budget 2019 proposes to renew and replenish funding for the Specific Claims Settlement Fund for a further three years, starting in 2019–20.

Budget 2019 also proposes to provide additional support of \$40.0 million over five years, starting in 2019–20, to First Nations to help research and develop their claims.

Forgiving and Reimbursing Loans for Comprehensive Claim Negotiations

The use of loans has been a longstanding barrier to Indigenous participation in negotiations and to concluding subsequent agreements, as debts from prolonged comprehensive claim negotiations can make it difficult for Indigenous groups to move forward with other priorities, such as economic development initiatives or service improvements. Forgiving and reimbursing loans will allow Indigenous communities and governments to use their resources to strengthen their communities and improve the quality of life of their members.

Budget 2018 ended the practice of funding comprehensive claims negotiations through loans and replaced them with non-repayable contributions.

 To support Indigenous communities' ability to invest in their own priorities, and to demonstrate the Government's commitment to recognizing Indigenous rights, Budget 2019 proposes funding of \$1.4 billion over seven years starting in 2018–19, to forgive all outstanding comprehensive claim negotiation loans and to reimburse Indigenous governments that have already repaid these loans. Forgiving and reimbursing loans will allow more than 200 Indigenous communities to reinvest in their priorities like governance, infrastructure and economic development that will increase health and well-being for all community members.

New Departments to Support New Relationship

To help support a renewed relationship with Indigenous Peoples, on August 28, 2017, the Prime Minister announced the dissolution of Indigenous and Northern Affairs Canada and creation of two new departments: Crown-Indigenous Relations and Northern Affairs Canada, and Indigenous Services Canada.

Building on recommendations from the Royal Commission on Aboriginal Peoples over twenty years ago, and listening to the concerns and hopes of Indigenous Peoples conveyed during recent consultations on the creation of the two departments, Crown-Indigenous Relations and Northern Affairs Canada would be responsible for leading the Government's forward-looking and transformative work to create a new relationship with Indigenous Peoples, focused on the recognition and implementation of Indigenous rights. Indigenous Services Canada would be the focal point for improving the quality of services delivered to First Nations, Inuit and Métis and for supporting the increased delivery of those services by Indigenous Peoples rather than the Government of Canada.

Following the completion of consultations in 2018, the Government proposes to introduce legislation to effect the formal creation of these two new departments.

Part 2: Strengthening Governance Tools

Supporting Strong and Successful Self-Governing Indigenous Communities

The Government recognizes that Indigenous Peoples have an inherent right to self-government as an existing Aboriginal right under section 35 of the *Constitution Act, 1982*. In 2016, the Government committed to working with self-governing Indigenous communities to co-develop a new self-government fiscal policy as part of a collaborative fiscal policy development process. The Government is delivering on this commitment by working with self-governing Indigenous communities to develop evidence-based costing methodologies that will more accurately reflect these communities' funding requirements.

To help ensure that Indigenous governments have the fiscal capacity to govern their people, communities, land and resources effectively, Budget 2019 proposes to invest in a new co-developed collaborative self-government fiscal policy including:

- a new approach for governance funding;
- a new life-cycle funding model for the maintenance and replacement of community infrastructure; and
- an interim approach to land and resource management responsibilities.

Better Information for Better Services

All governments—including First Nations governments—need access to timely data and information. With better information, governments are better able to make informed decisions, and deliver the high-quality services their citizens expect.

To ensure that First Nations have the information they need to serve their members well, Budget 2019 proposes to provide \$78.9 million over seven years, starting in 2019–20, with \$13.7 million per year ongoing, to permanently fund the Surveys on Indigenous Peoples and the First Nations Regional Health Survey. These surveys provide important information on education, health, employment and language proficiency—information that is needed for decision-making in First Nations communities and for designing programs and services tailored to community needs. These surveys are conducted under the leadership of the First Nations Information Governance Centre, in collaboration with Statistics Canada.

Core Governance Support for First Nations

In Budget 2018, the Government committed to undertaking a comprehensive and collaborative review of programs and funding that support First Nations governance. That review is currently underway. At the same time, a number of First Nations communities need additional support to build their governance capacity to effectively serve their communities.

To help with this critical need, Budget 2019 proposes to provide \$48.0 million over two years, starting in 2019–20, to directly support communities in greatest need obtain the expertise, advice and tools required to govern their communities and deliver critical programs and services.

Supporting a New Fiscal Relationship: 10-Year Grants

Ensuring Funding “Keeps Up” With Key Cost Drivers

As of April 1, 2019, at least 70 First Nations will have their funding provided through the new 10-year grant, developed to help advance a new fiscal relationship. This funding mechanism will provide First Nations with greater certainty, greater flexibility, and reduced administrative and reporting burden. To ensure the 10-year grants grow with the needs of First Nations, Budget 2019 is proposing that starting April 1, 2020, funding for core programs and services provided through the 10-year grants will be escalated to address key cost drivers including inflation and population growth.

Tax Agreements with Indigenous Governments

The Government has been engaging with Indigenous groups and organizations to hear their perspectives on tax matters and the role of tax powers and tax arrangements in the new fiscal relationship. Discussions are ongoing with, among others, self-governing Indigenous governments, Indigenous groups in self-government negotiations and the Assembly of First Nations.

The Government is assessing the proposals advanced by Indigenous groups and organizations to date and will continue to work collaboratively with Indigenous partners on charting the path forward.

The Government also confirms its continued willingness to negotiate agreements with interested Indigenous governments to enable the implementation of First Nations Goods and Services Tax within their settlement lands or reserves, and with interested self-governing Indigenous governments to enable them to implement a personal income tax within their settlement lands. The Government also supports and encourages direct taxation arrangements between interested provinces or territories and Indigenous governments and will continue to facilitate such arrangements. The Government recognizes the important role that tax powers and tax arrangements could play in establishing a new fiscal relationship and in supporting self-sufficiency and self-determination for Indigenous governments.

Part 3: Closing the Gap

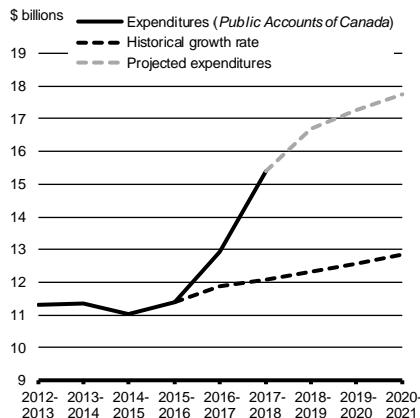
"It's time for a new fiscal relationship with First Nations that gives your communities sufficient, predictable and sustained funding. This is a promise we made, and a promise we will keep."

— Prime Minister Justin Trudeau,
December 8, 2015

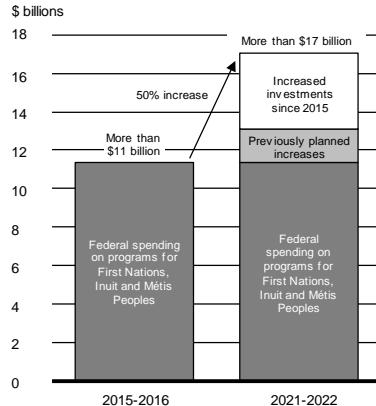
With Budgets 2016, 2017 and 2018, the Government began the important work of increasing investment in Indigenous Peoples and their priorities—starting with a commitment to establish a new fiscal relationship, and supported by total investments of more than \$16.8 billion to address areas of critical need in Indigenous communities. This resulted in planned funding for First Nations, Inuit and Métis growing from just over \$11.0 billion in 2015–16 to more than \$15.0 billion in 2021–22—an increase of 34 per cent in total funding.

Building on these previous commitments, Budget 2019 proposes to invest a further \$4.5 billion over five years, beginning in 2019–20, to continue efforts to close the gap between the living conditions of Indigenous Peoples and the non-Indigenous population, bringing total planned federal government investments in Indigenous programs to more than \$17 billion in 2021–22, an increase of 50 per cent compared to the year the Government was elected. Through significant investments the Government has lifted the 2 per cent cap on funding.

Chart 3.1
Indigenous Investments:
2012–13 to 2020–21



Increased Investments in Indigenous Peoples



Note: Projected expenditures do not include 2018–19 funding for loan forgiveness.

Making Progress on the Truth and Reconciliation Commission of Canada's Calls to Action

Established in 2008 as part of the Indian Residential Schools Settlement Agreement, the Truth and Reconciliation Commission of Canada gave people affected by the legacy of the Indian Residential Schools system an opportunity to share their stories and experiences, and laid the groundwork for reconciliation among former students, their families, their communities and all Canadians in a series of 94 recommendations, or Calls to Action. The Government has committed to implementing these Calls to Action and progress has been made.

For example, Budget 2016 provided \$2.6 billion over five years to address Call to Action 8 and end the discrepancy in education funding for First Nations children on and off reserve. In Budget 2017, the Government invested \$1.705 billion over 10 years to address Call to Action 12 and develop culturally appropriate early childhood education programs for Indigenous families. In Budget 2018, the Government invested \$1.4 billion over six years, starting in 2017–18, to support Call to Action 1 and help reduce the number of Indigenous children in care. Further, the Government has taken strides to work collaboratively with plaintiffs not included in the Indian Residential Schools Settlement Agreement to implement Call to Action 29, including through the successful settlement of the Anderson class action litigation (for survivors of Newfoundland Residential Schools) and the ongoing settlement process for survivors of the Sixties Scoop. Efforts are also being made to advance Call to Action 3 to support the full implementation of Jordan’s Principle, including additional funding proposed in Budget 2019 and described later in this chapter.

 Budget 2019 builds on this important work and proposes investments to continue progress on implementation of the Calls to Action including:

- **Calls to Action 53 to 55—National Council for Reconciliation.** Budget 2019 proposes to provide \$126.5 million in 2020–21 to establish a National Council for Reconciliation and endow it with initial operating capital. The Council will involve all Canadians in creating a better understanding of reconciliation, and will serve as a permanent reminder of the importance of reconciliation and the Calls to Action. The Council will engage First Nations, Inuit and Métis Nation peoples, as well as non-Indigenous Canadians, in Canada’s reconciliation process, and ensure that the important work of the Truth and Reconciliation Commission continues.

Making Progress on the Truth and Reconciliation Commission of Canada's Calls to Action

- **Calls to Action 72 to 76—Honouring Missing Residential School Children.** In memory of all the children who went missing while attending residential schools, and in support of their grieving families and communities, the Government proposes to develop and maintain the National Residential School Student Death Register and to work with parties to establish and maintain an online registry of residential school cemeteries. Opportunities for commemoration will be provided, to support the healing and ongoing reconciliation for families and communities affected by residential schools. This will be done in partnership with affected families and communities, as well as the National Centre for Truth and Reconciliation, supported by a proposed investment of \$33.8 million over three years, starting in 2019–20.
- **Call to Action 50—Supporting Renewed Legal Relationships with Indigenous Peoples.** Indigenous Peoples in Canada have unique laws and legal traditions. The Government recognizes the importance of revitalizing Indigenous legal systems, and the important role that Indigenous law institutes, in partnership with Indigenous communities, can play in understanding, developing and implementing Indigenous laws. To this end, Budget 2019 proposes to provide \$9.1 million over three years, starting in 2019–20, to support the construction of an Indigenous Legal Lodge at the University of Victoria, a leader in this field. The Indigenous Legal Lodge will house the university's new dual degree program in Canadian Common Law and Indigenous Legal Orders, and will serve as a foundation for debate, learning, public education and partnership on the revitalization of Indigenous laws. Budget 2019 also proposes to provide \$10.0 million over five years, starting in 2019–20, in support of Indigenous law initiatives across Canada through the Justice Partnership and Innovation Program, to improve equality for Indigenous Peoples in Canada's legal system.
- **Call to Action 66—Indigenous Youth and Reconciliation.** Indigenous youth are the future leaders of their communities and the country's fastest growing demographic. To help ensure that the voices of First Nations, Inuit and Métis youth are heard and to support Indigenous youth reconciliation initiatives, Budget 2019 proposes to provide \$15.2 million over three years, starting in 2019–20, for an Indigenous youth pilot program delivered by Canadian Roots Exchange. Canadian Roots Exchange is a non-profit organization which works to advance reconciliation by bringing together Indigenous and non-Indigenous youth to promote mutual understanding and respect. Funding will support the establishment of a distinctions-based national network of Indigenous youth, help ensure that Government of Canada policies and programs are informed by the diverse voices of Indigenous youth, and provide support to community events and gatherings for Indigenous youth and reconciliation-focused community-based Indigenous youth activities.

Making Progress on the Truth and Reconciliation Commission of Canada's Calls to Action

- **Call to Action 80—National Day for Truth and Reconciliation.** To enable communities to recognize and commemorate the legacy of residential schools on the proposed National Day for Truth and Reconciliation, and to celebrate the unique heritage, diverse cultures and outstanding contributions of First Nations, Inuit and Métis Peoples on National Indigenous Peoples Day, Budget 2019 proposes to provide \$10.0 million over two years, starting in 2019–20, to support non-governmental and community organizations holding events in communities across Canada, through Canadian Heritage's Celebration and Commemoration Program.

Part 4: Better Services for First Nations and Inuit Children

All children in Canada deserve a real and fair chance to reach their full potential, no matter where they live. For too long, First Nations and Inuit children have faced systemic barriers that have made it difficult for them to access the services they need. The Government is working with First Nations and Inuit partners to eliminate these barriers and help give children in these communities the good education, quality health care and culturally relevant social supports they need to succeed.

Together, the Government and First Nations, Inuit and Métis Nation partners co-developed Indigenous child welfare legislation, Bill C-92: An Act respecting First Nations, Inuit and Métis Children, Youth and Families, to help address the overrepresentation of Indigenous children in the child welfare system. The proposed legislation affirms the rights and authorities of Indigenous Peoples over child welfare services to create laws and policies to help keep children safe, within their families and communities.

Continuing Implementation of Jordan's Principle

Jordan's Principle helps ensure that all First Nations children can access the health, social and educational services they need, when they need them. In 2016, the Government took a new approach to implementing Jordan's Principle, and respond to the Truth and Reconciliation Commissions' Call to Action 3, aimed at reducing the gaps in services between First Nations children and other children in Canada. This included an initial investment of \$382.5 million over three years, to establish the Child First Initiative. Since July 2016, more than 214,000 requests for services have been approved, giving First Nations children access to life-changing services including speech therapy, educational supports, medical equipment, mental health services, and more.

To ensure that First Nations children continue to have access to the services that they need, Budget 2019 proposes to invest \$1.2 billion over three years, beginning in 2019–20. During that time, the Government and First Nations will continue to work together to develop a long-term approach to improving services for First Nations children, based on Jordan's Principle.

Jordan's Story

Every child deserves access to services like health care and supports at school. However, First Nations children have not always had the same access to services as other Canadians.

This is because different levels of government fund different services for First Nations children, especially those living on-reserve. This has led to disputes between governments about who should pay for which services.

Jordan River Anderson from Norway House Cree Nation in Manitoba got caught in one of these payment disputes. Jordan was born in 1999 with multiple disabilities and stayed in the hospital from birth.

When he was 2 years old, doctors said he could move to a special home for his medical needs. However, the federal and provincial governments could not agree on who should pay for his home-based care.

Jordan stayed in the hospital until he passed away at the age of 5.

In 2007, the House of Commons passed Jordan's Principle in memory of Jordan. It was a commitment that First Nations children would get the products, services and supports they need, when they need them, and the payments would be worked out later.

Jordan's Principle will support First Nations children for generations to come. This is the legacy of Jordan River Anderson.

Supporting Inuit Children

Due to the remoteness of their home communities and the limited availability of culturally appropriate services, Inuit children face a number of unique challenges accessing health and social services. Inuit families often have to travel far from their communities to receive the services that are typically available to children in other parts of the country. In September 2018, the Government committed to work with Inuit partners to ensure that Inuit children have better access to health and social services within Inuit Nunangat.

To address the immediate needs of Inuit children, Budget 2019 proposes to invest \$220 million over five years, beginning in 2019–20, to provide services to Inuit children as work continues with Inuit and other government partners to improve local capacity to deliver services.

Part 5: Preserving, Promoting and Revitalizing Indigenous Languages

Preserving, promoting and revitalizing Indigenous languages is a critical part of recognizing Indigenous identity and strengthening Indigenous communities.

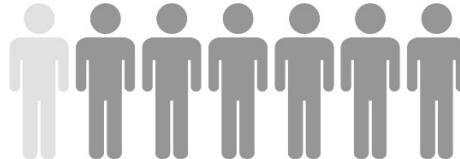
To support this work, the Government is advancing Indigenous languages legislation, co-developed with Indigenous Peoples. Introduced in February 2019, Bill C-91: An Act Respecting Indigenous Languages, supports these efforts. It also responds to Calls to Action 13, 14 and 15 made by the Truth and Reconciliation Commission of Canada, and supports the implementation of the *United Nations Declaration on the Rights of Indigenous Peoples*.

To support the implementation of the proposed Indigenous Languages Act, Budget 2019 proposes to invest \$333.7 million over the next five years, starting in 2019–20, with \$115.7 million per year ongoing. This investment will make possible a distinctions-based approach to Indigenous language revitalization projects, will support the creation of the proposed Office of the Commissioner of Indigenous Languages, and begin the important work of revitalizing the languages that help to affirm Indigenous identity and experiences.

There are more than 70 Indigenous languages spoken by over 260,000 Indigenous peoples in Canada.



1 in 5 Indigenous peoples over the age of 65 report an Indigenous language as their mother tongue.



However, only about 1 in 7 Indigenous children report being able to carry on a conversation in an Indigenous language. 1 in 10 report an Indigenous language as a mother tongue.

Learning an Indigenous language at home in childhood as a primary language is a crucial element of the long-term viability of Indigenous languages. Elders in Indigenous communities will play an important role in the transmission of Indigenous languages to future generations. Children are the future speakers of Indigenous languages.

Supporting Indigenous Post-Secondary Education

Indigenous Peoples are among the youngest and fastest growing segments of the Canadian population, yet they continue to face barriers when it comes to pursuing post-secondary education and finding good, well-paying work.

Budget 2019 proposes to invest \$824.0 million over ten years, starting in 2019–20, and \$61.8 million ongoing in support of Indigenous distinctions-based post-secondary education. For more information see Chapter 1.

Part 6: Healthy, Safe and Resilient Indigenous Communities

On Track to Eliminate Boil Water Advisories on Reserve

Everyone in Canada should have reliable access to safe, clean drinking water. Since 2015, the Government has invested nearly \$2 billion to build new public water systems in First Nations communities, and repair and upgrade existing systems.

Investments in Action

Recent investments are currently supporting 490 water and wastewater projects in 581 communities. For example:

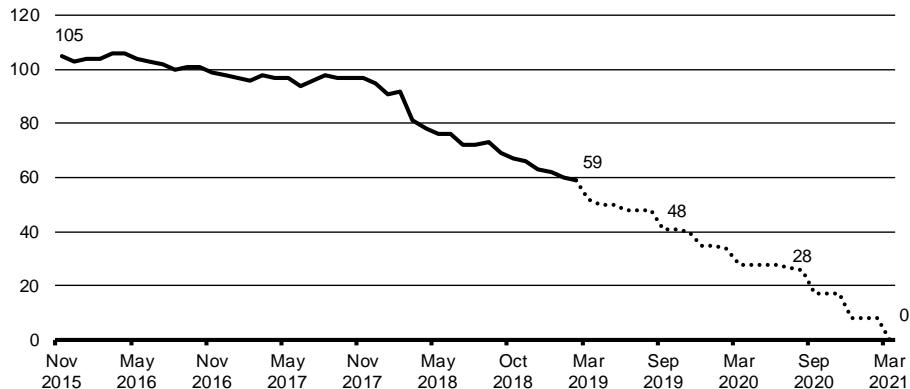
- Horse Lake First Nation in Alberta partnered with Indigenous Services Canada for the construction of a new water treatment plant capable of meeting all guidelines for Canadian drinking water quality. The previous water treatment plant was constructed in the 1980s and had multiple issues that resulted in it being not capable of treating source water for contamination. The community now has a water treatment plant that meets the Canadian Drinking Water Guidelines and corrects a bacteriological risk associated with the ground water source.
- On December 19, 2018, Weenusk First Nation, a remote community 770 kilometres northwest of Timmins, Ontario, lifted a boil water advisory that had been in place since 2006. Weenusk First Nation partnered with Indigenous Services Canada to complete the necessary upgrades and repairs to the community's water treatment plant, developed an operational action plan, and now has a certified water operator overseeing the water treatment plant.
- The Nation huronne-wendat in Quebec built a water connection to a new residential area in the community that provides safe, clean water and an improved quality of life for community members.
- Miawpukek First Nation in Newfoundland and Labrador successfully completed upgrades to the disinfection system and an expansion of its water treatment plant to lift a long-term drinking water advisory that had been in effect since September 2014.

These investments are delivering tangible results. Together, the Government and First Nations continue to reduce reliance on the delivery of bottled water and make progress on eliminating long-term drinking water advisories on-reserve, with the goal of having all advisories lifted by 2021. Since November 2015, more than 80 long-term drinking water advisories have been lifted—45 more that were resolved in the previous 4 years.

Chart 3.2

All Long-Term Drinking Water Advisories to be Lifted by March 2021

water advisories



In communities where reliable access to safe, clean drinking water has been restored, however, a risk remains. Without sufficient resources to operate and maintain water and wastewater systems, it is possible that new drinking water advisories may be issued in future.

To ensure that does not happen and to make sure that previous investments deliver lasting benefits, Budget 2019 proposes to invest an additional \$739 million over five years, beginning in 2019–20, with \$184.9 million per year ongoing. This investment will support ongoing efforts to eliminate and prevent long-term drinking water advisories—funding urgent repairs to vulnerable water systems, and providing water operator training and support programs, so that First Nations communities can effectively operate and maintain their public drinking water systems.

Safe and Accessible Spaces for Urban Indigenous Peoples

Roughly 60 per cent of all Indigenous people live in urban centres. Through Urban Programming for Indigenous Peoples (UPIP), the federal government supports Indigenous social service organizations that deliver culturally enhanced programs and services to urban Indigenous residents, such as help finding a job, assistance accessing childcare and other support. However, many of the facilities where service providers operate need significant retrofitting, or need to be entirely rebuilt, in order to be able to provide the programs and services that clients have come to rely on.

To ensure that urban Indigenous residents have safe and accessible spaces to access culturally-relevant services, Budget 2019 proposes to invest \$60 million over five years, beginning in 2019–20, to support capital infrastructure investments in Friendship Centres, which deliver the majority of UPIP programming, as well as other urban Indigenous service provider facilities.

Improving Emergency Response On-Reserve

First Nations communities face disproportionate health and safety risks arising from emergencies and natural disasters. The result is disruption, dislocation, and for too many people, a disconnection from the land that they call home. On average, people living on First Nations reserves in Canada are 18 times more likely to be evacuated as a result of disasters such as wildfires, floods and severe storms, compared to people living off-reserve.

Responding to Natural Disasters

In the last year, Canada experienced the devastating effects of wildfires in British Columbia and Ontario, floods in the Saint John River Valley in New Brunswick, as well as tornadoes in the National Capital Region. With a changing climate, extreme weather events and the preconditions for wildfires are on the rise.

Indigenous communities, 80 per cent of which are located in forested areas, are particularly vulnerable to the wildfires, which burn on average 2.3 million hectares of land per year across Canada.

In the context of the 2018 British Columbia wildfires, First Nations experienced both the largest number of wildfire emergencies and the largest number of evacuations since data first became available in 2009. Federal support ranged from the Canadian Armed Forces providing air and ground assets for evacuations and assistance, to the Canadian Coast Guard making available aviation assets in support of the federal response. Parks Canada deployed an Incident Management Team for firefighting, as well as managing fire responses within national park sites.

To help First Nations communities prepare for emergencies and better adapt to the threats of climate change, Budget 2019 proposes to make additional investments, including:

- \$211.0 million over five years, starting in 2019–20, with \$49.4 million per year ongoing to support increased resiliency and emergency management on-reserve.
- \$48.0 million over four years, starting in 2020–21, to renew funding for infrastructure projects on-reserve that will protect communities from climate-related hazards.

These additional investments will strengthen the capacity of First Nations communities to prepare for and respond to emergencies, support activities to prevent and reduce the consequences of emergencies, and fund infrastructure projects such as dams and culverts to help decrease the need for emergency response and recovery on-reserve.

They will also support the creation of an Indigenous Fire Marshall's Office. This would be a First Nations-led institution that would promote fire safety and prevention, undertake public education, enforce local fire safety and building codes, and conduct regular building inspections in First Nations communities.

Finally, as part of the Government's efforts to strengthen emergency management across the country, Budget 2019 also proposes to invest in expanding the FireSmart program on-reserve.

Improving Assisted Living and Long-Term Care

Members of First Nations communities who live on-reserve and have chronic illnesses or disabilities receive help through the Assisted Living Program, which provides daily living supports that help people maintain their independence and stay in their own homes and communities, close to their families and friends. This program helps over 10,000 people each year, on an income-tested basis, providing services that include in-home care, adult foster care and nursing home care.

With a growing and aging client population, and greater demand for in-home care, Budget 2019 proposes to invest \$35 million in 2019–20 to ensure the Assisted Living Program continues to help meet the needs of seniors and people with disabilities. To better support First Nations and Inuit individuals living with chronic illnesses and disabilities now and in the future, Budget 2019 also proposes to provide an additional \$8.5 million over two years, starting in 2019–20, to work with First Nations and Inuit communities on developing a new and more holistic long-term care strategy.

Supporting the National Inuit Suicide Prevention Strategy

The Inuit Tapiriit Kanatami's National Inuit Suicide Prevention Strategy was released in July 2016 and set out a series of actions and interventions at the community and regional level to address the high number of deaths by suicide among Inuit, where the suicide rate remains 5 to 25 times the national average for Canada. To continue to support Inuit and their communities, Budget 2019 proposes an investment of \$50 million over 10 years, starting in 2019–20, with \$5 million per year ongoing, to support ITK's Inuit-specific approach through the Strategy to address deaths by suicide in Inuit communities.

Improving Access to Addictions Treatment Support in Nunavut

Nunavut has been without an addictions treatment centre for over 20 years. For too long, Inuit and other residents of Nunavut seeking mental health and substance use supports have had to travel south, far from their families, friends and communities to access the services that they need. The Truth and Reconciliation Commission of Canada called on the federal government to ensure funding for healing centres in Nunavut is a priority as part of Call to Action 21. As announced in Chapter 2, together with contributions from the Government of Nunavut and Inuit partners, the Government is committed to supporting the construction and ongoing operation of a treatment facility in Nunavut.

Supporting Indigenous Business Development

The population of Indigenous Peoples in Canada is growing, and is increasingly younger than the general population. These younger generations of Indigenous Peoples are entrepreneurial and business-oriented, and increasingly recognize economic development as a means to self-reliance and greater autonomy for their communities and their people. At the same time, Indigenous Peoples are underrepresented in the labour market, compared to the general population in Canada. Ensuring that First Nations, Inuit and Métis are able to fully contribute to and share in Canada's economic success is a critical part of advancing reconciliation and self-determination.

To that end, Budget 2019 proposes to invest \$78.9 million over five years, starting in 2019–20, with \$15.8 million per year ongoing, to support Indigenous entrepreneurs and economic development. This investment, through the Community Opportunity Readiness Program, will help First Nations and Inuit communities build business plans, and provide funding to expand existing Indigenous-led businesses, and launch new Indigenous-led start-ups.

The Métis Nation represents important Métis communities in Ontario, Manitoba, Saskatchewan, Alberta and British Columbia. Building on Budget 2016 investments to support the Métis Nation in developing an economic development strategy, Budget 2019 proposes to provide \$50 million over five years, starting in 2019–20, to enhance the funding of the Métis Capital Corporations to support the start-up and expansion of Métis small and medium-sized enterprises.

Supporting Indigenous Entrepreneurs Through the Indigenous Growth Fund

At present, there are 59 Aboriginal Financial Institutions across Canada providing financing to Indigenous entrepreneurs, helping them to start and grow successful businesses. This support not only helps individual businesses and their employees, it fosters greater economic self-reliance and lays the groundwork for growth that benefits Indigenous Peoples, and all Canadians.

To further encourage investments in Indigenous-led businesses, Budget 2019 proposes to create an Indigenous Growth Fund. Managed by the National Aboriginal Capital Corporations Association, this Fund would allow all Aboriginal Financial Institutions, including Métis Capital Corporations and others, to support more Indigenous entrepreneurs, and more ambitious projects. The Government is proposing to provide up to \$100 million, through the Social Finance Fund and the Business Development Bank of Canada, to support the Indigenous Growth Fund. Further details will be announced in the coming year, including the opportunity for participation by private sector investors. Further details of the Social Finance Fund can be found in Chapter 4.

■ To further support Indigenous entrepreneurs, Budget 2019 also proposes to provide \$17 million over three years, starting in 2020–21, to expand the Aboriginal Entrepreneurship Program. This program provides a range of services and supports that promote the growth of a strong Indigenous business sector in Canada.

As announced in Chapter 2, Budget 2019 also proposes to provide Futurpreneur Canada, a national not-for-profit organization that helps youth entrepreneurs, \$3 million over five years, starting in 2019–20, to allow the organization to increase its targeted support to the next generation of Indigenous entrepreneurs. Further details regarding support to Futurpreneur Canada can be found in Chapter 2.

Rock-Tech: An Indigenous Success Story

Rock-Tech, located just west of Sudbury in Lively, Ontario, provides products for the mining industry. With the financial support of the Métis Voyageur Development Fund, a Métis Capital Corporation, Rock-Tech was able to purchase and renovate its 32,000-square-foot manufacturing plant, and acquire the latest in manufacturing equipment, to help sustain and grow its business. With the additional capital, Rock-Tech was also able to improve plant safety and environmental and manufacturing competitiveness, and won export contracts in South America.

Engaging Indigenous Communities in Major Resource Projects

As a potential source of revenue, business development opportunities, and good, well-paying jobs for community members, major natural resource projects such as pipelines can offer significant benefits to Indigenous communities. Indigenous people are more likely to work in the natural resources sector than non-Indigenous persons. This can be a significant benefit as the natural resources sector's average hourly wage is over \$38, which is significantly higher than the national average of \$27.

 Budget 2019 proposes to provide \$12.8 million in 2019–20 to Natural Resources Canada to maintain its capacity to conduct meaningful consultations with Indigenous communities on major energy projects and to support Indigenous economic participation in the natural resource sectors.

The Trans Mountain Expansion Project is an example of how the Government is consulting meaningfully with First Nations and Métis communities. Government officials, and representatives of Trans Mountain Corporation, have met with nearly all of the potentially impacted Indigenous communities along the route, and have heard important issues. Indigenous people are telling the Government that they want to protect sensitive sites, improve emergency response and safety capacity in their communities, protect the iconic southern resident killer whales and their habitat, mitigate the cumulative impacts of development on land and water, and ensure their communities have the opportunity to benefit economically from the project. The Government has provided federal consultation teams with a strong mandate to accommodate these concerns. The Government will make a decision on the Project once it is satisfied that the Crown has adequately fulfilled its duty to consult.

Supporting First Nations Priorities

Budget 2019 proposes significant investments to advance priorities identified by First Nations including:

- Funding to forgive and reimburse all comprehensive claim negotiation loans, which will allow communities to reinvest in their priorities.
- \$1.2 billion over three years to continue to implement Jordan's Principle and help ensure that all First Nations children can access the health, social and educational services they need, when they need them.
- \$327.5 million over five years to enhance the Post-Secondary Student Support Program while the Government engages with First Nations on long-term regional post-secondary education models.
- More than \$1 billion over five years to improve essential services on-reserve, such as clean drinking water, fire protection, emergency response and supports for residents with disabilities or chronic illnesses.
- Support for a distinctions-based approach to Indigenous language revitalization projects with \$333.7 million over five years to preserve, promote and revitalize Indigenous languages.
- \$40.0 million over five years to help First Nations research and develop their specific claims and a commitment to renew and replenish funding for the Specific Claims Settlement Fund for a further three years.

- Support for strong and successful self-governing First Nations including investments to support a new co-developed collaborative self-government fiscal policy.
- A commitment to escalate funding for core programs and services provided through the 10-year grant to ensure that funding keeps up with key cost drivers effective April 2020.

Supporting Inuit Priorities

Through the Inuit-Crown Partnership Committee, the Inuit Tapiriit Kanatami and the Government of Canada have worked together to advance important priorities for Inuit such as eliminating tuberculosis in Inuit Nunangat, creating a permanent Inuit Health Survey and addressing overcrowded housing. Through Budget 2019, the Government is providing \$286.2 million over five years to expand the reach of successful activities and take action in new areas, including:

- \$125.5 million over 10 years for an Inuit-led post-secondary education strategy.
- \$50 million over 10 years to continue the important work of the National Inuit Suicide Prevention Strategy.
- \$220 million over five years to provide important health and social services to Inuit children.
- Support for a distinctions-based approach to Indigenous language revitalization projects with \$333.7 million over five years to preserve, promote and revitalize Indigenous languages, including Inuktitut and Inuvialuktun.

In addition, Inuit will also benefit from the following measures:

- Funding to forgive and reimburse all comprehensive claim loans, which will allow communities to reinvest in their priorities.
- Support for strong and successful Indigenous self-governments including investments to support a new co-developed collaborative self-government fiscal policy.
- \$15 million, over five years to establish a Northern Isolated Community Initiatives Fund to support community-led food production projects and provide skills training for local and Indigenous food production systems.
- Together with contributions from the Government of Nunavut and Inuit partners, as part of the Budget 2019, the Government announces its commitment to support the construction and ongoing operation of a mental health and substance abuse treatment facility in Nunavut.
- The Government is exploring the potential creation of a marine conservation area in the High Arctic Basin or Tuvaijuittuq (which means “the ice never melts” in Innu)—the last portion of the Arctic region expected to retain summer sea ice until at least 2050. The Government will work with the Government of Nunavut and Qikiqtani Inuit Association to advance this important conservation initiative, while also working to support the development of a conservation economy in the region.

Supporting Métis Nation Priorities

In 2017, the Government of Canada and the Métis Nation signed the Canada-Métis Nation Accord. In this agreement, both parties agreed to work together on advancing joint policy objectives and making real progress to improve socio-economic outcomes for Métis Peoples. Building on the significant investments already made to support Métis Nation priorities in the areas of housing, skills and training, early learning and child care, and governance capacity, Budget 2019 continues this progress on Métis Nation priorities, including

- \$362 million over 10 years to support a Métis Nation-led post-secondary education strategy.
- \$30 million to recognize the contribution of Métis veterans to the country's Second World War efforts and to commemorate the sacrifices and achievements of all Métis veterans.
- Support for a distinctions-based approach to Indigenous language revitalization projects with \$333.7 million over five years to preserve, promote and revitalize Indigenous languages, including Michif, the traditional language spoken by Métis Peoples.
- \$50 million over five years to enhance the funding of the Métis Capital Corporations to support the start-up and expansion of Métis small and medium-sized enterprises, and up to \$100 million to establish an Indigenous Growth Fund to further encourage investments in Indigenous-led businesses by Aboriginal Financial Institutions, including Métis Capital Corporations.

Chapter 3 - Advancing Reconciliation

millions of dollars

	2018– 2019	2019– 2020	2020– 2021	2021– 2022	2022– 2023	2023– 2024	Total
Part 1. Redressing Past Wrongs and Advancing Self-Determination							
Advancing Reconciliation by Settling Specific Claims	0	8	8	8	8	8	40
Forgiving and Reimbursing Loans for Comprehensive Claim Negotiations	938	0	98	98	98	98	1,331
Part 1. Redressing Past Wrongs and Advancing Self-Determination Total	938	8	106	106	106	106	1,371
Part 2. Strengthening Governance Tools							
Better Information for Better Services	0	4	6	16	17	12	55
Core Governance Support for First Nations	0	24	24	0	0	0	48
Part 2. Strengthening Governance Tools Total	0	28	30	16	17	12	103
Part 3: Closing the Gap							
National Council for Reconciliation	0	0	127	0	0	0	127
Honouring Missing Residential School Children	0	8	11	15	0	0	34
Supporting Renewed Legal Relationships With Indigenous Peoples	0	4	5	6	2	3	19
Indigenous Youth and Reconciliation	0	5	5	5	0	0	15
National Day for Truth and Reconciliation	0	5	5	0	0	0	10
Closing the Gap	0	21	153	26	2	3	205
Part 4. Better Services for First Nations and Inuit Children							
Continuing Implementation of Jordan's Principle	0	404	404	404	0	0	1,212
Supporting Inuit Children	0	30	40	50	50	50	220
Part 4. Better Services for First Nations and Inuit Children Total	0	434	444	454	50	50	1,432

Part 5. Preserving, Promoting and Revitalizing Indigenous Languages	Preserving, Promoting and Revitalizing Indigenous Languages	0	15	44	72	87	116	334
Part 5. Preserving, Promoting and Revitalizing Indigenous Languages Total		0	15	44	72	87	116	334
Part 6. Healthy, Safe and Resilient Indigenous Communities								
On Track to Eliminate Boil Water Advisories on Reserve		0	67	149	164	174	185	739
Safe and Accessible Spaces for Urban Indigenous Peoples		0	4	9	21	21	6	60
Improving Emergency Response On-Reserve		0	33	50	58	57	61	259
Improving Assisted Living and Long Term Care		0	40	3	0	0	0	44
Supporting the National Inuit Suicide Prevention Strategy		0	5	5	5	5	5	25
Supporting Indigenous Business Development		0	26	26	26	26	26	129
Supporting Indigenous Entrepreneurs Through the Indigenous Growth Fund		0	0	11	5	10	0	26
<i>Less: Funds existing in the Fiscal Framework</i>		0	0	-9	0	0	0	-9
Engaging Indigenous Communities in Major Resource Projects		0	13	0	0	0	0	13
Part 6. Healthy, Safe and Resilient Indigenous Communities Total		0	187	244	278	292	283	1,285
Chapter 3 - Net Fiscal Impact		938	694	1,021	953	554	570	4,730



CHAPTER 4

Delivering Real Change

"Canada's economy is strong and growing, but the message from Canadians is clear: there is more work to be done."

— Bill Morneau,
Minister of
Finance, 2019

Canada is recognized worldwide as a safe, just and fair society with strong democratic traditions and institutions that work—built on values of openness, cooperation and care for our fellow Canadians.

Since 2015, the Government has taken action to protect those values through investments that strengthen our institutions, support those in need, and reaffirm Canada's place in the world. The results are making a real difference in the lives of Canadians—delivering the real change Canadians expect and deserve.

Investing in people and in the infrastructure that will build a better Canada has, along with the hard work of Canadians, created more good, well-paying jobs. Targeted benefits like the Canada Child Benefit and the middle class tax cut have helped ensure that more people benefit from a strong and growing economy.

Despite Canada's success, challenges remain. In a world where values of democracy, pluralism and openness are under increasing threat, more work needs to be done to continue to achieve progress and deliver real change for Canadians.

Budget 2019 takes the steps today to support Canadian society and to protect the values that Canadians believe in.

Part 1: Health and Well-Being

As Canada's demographics change and new health care challenges emerge, federal, provincial and territorial governments must work together to innovate, adapt and improve health services to better meet the needs of Canadians.

The Government is providing leadership on key issues that affect the health and well being of Canadians and their families:

- The Government has provided over \$350 million since 2017 in response to the **opioid crisis**, with measures focused on prevention, treatment, enforcement and harm reduction. This includes \$150 million provided directly to provinces and territories through the Emergency Treatment Fund.
- Efforts to strengthen **tobacco control** in Canada also continue, with the objective of implementing plain packaging requirements on all tobacco products as well as the modernization of the Federal Tobacco Control Strategy, to reduce tobacco-related diseases and deaths. Between new funds set out in Budget 2018 as well as existing resources, the Government plans to make significant investments in tobacco control, including vaping, over the next five years.
- The Government will also continue the implementation of the multi-year comprehensive **Healthy Eating Strategy** to help Canadians make informed and healthier food choices, including through the introduction of restrictions on the marketing of unhealthy food and beverages to children, and through improved food labelling. The Government also recently launched the new Canada's Food Guide, which is an integral part of the Healthy Eating Strategy that will help Canadians make healthy food choices for themselves and their families.

Investing in Better Home Care and Mental Health

In Budget 2017, the Government committed \$11 billion over 10 years to provincial and territorial governments to support home care and mental health. This funding will help more Canadians to receive better care at home or in their community—including enhancing access to palliative care and end-of-life care, increasing support for caregivers and enhancing home care infrastructure, such as digital connectivity and facilities for community-based service delivery. It will also help expand access to community-based mental health and addiction services, particularly for children and youth.

These priorities are outlined in the Common Statement of Principles on Shared Health Priorities between federal, provincial and territorial health ministers. The Government is working with jurisdictions to establish bilateral agreements that will set out how individual jurisdictions will use federal funding to improve access to home care and mental health services.

Addressing Major Health Care Challenges

Introducing a National Dementia Strategy

It is estimated that there are more than 400,000 Canadians living with dementia in Canada today, two-thirds of whom are women. As Canada's population ages, this number is expected to rise. The Alzheimer Society of Canada estimates that in less than 15 years, there will be close to one million Canadians living with dementia.

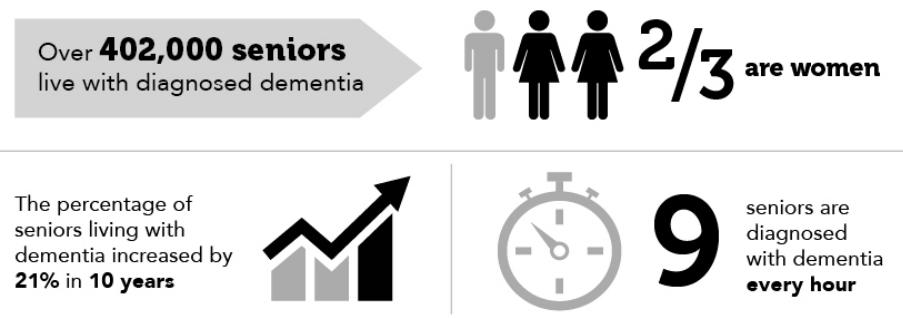
In Budget 2018, the Government announced an investment of \$20 million over five years, with \$4 million per year ongoing, to support community-based projects that enhance the well-being of people living with dementia, with particular focus on senior women. This funding will help to improve the quality of life of those seniors living with dementia and ensure that their caregivers—who are also predominantly women—have access to the resources they need, including mental health supports.

Building on this investment, and in support of the *National Strategy for Alzheimer's Disease and Other Dementias Act*, Budget 2019 proposes to provide the Public Health Agency of Canada with \$50 million over five years, starting in 2019–20, to support the implementation of Canada's first National Dementia Strategy, which is expected to be publicly released this spring.

Working with key stakeholders, including the provinces and territories, this funding will help improve the quality of life of people living with dementia, and their caregivers, by:

- Increasing awareness about dementia through targeted campaigns and activities that focus on prevention, as well as reducing risk and stigma.
- Developing treatment guidelines and best practices for early diagnosis.
- Improving our understanding of the prevalence and effects of dementia on our communities.

Figure 4.1: Dementia in Canada
According to national data (2013-2014), of people 65+:



Data source: Canadian Chronic Disease Surveillance System, April 2017. Data from Saskatchewan are not included.

Creating a Pan-Canadian Database for Organ Donation and Transplantation

Transplantation is amongst the most effective treatments for organ failure. Organ transplants are considered the best therapy for end-stage kidney disease and the only treatment for end-stage liver, heart and lung disease. They offer patients the best possible improvement to health and quality of life, and for many Canadians can truly mean the difference between life or death.

More than any other element of the health care system, organ donation and transplantation requires strong coordination and knowledge-sharing between different jurisdictions and health providers to ensure the right care at the right time. At present, there are significant gaps in both access and care with respect to organ donation and transplantation in Canada. This is due in part to strong demand: approximately 3,000 organs were donated in 2017, yet 4,500 individuals remained on waiting lists. Many individuals wait for more than a year before an organ becomes available, and every year, approximately 250 individuals die while waiting. Disparities across the country in both access to organ donations and quality of care are resulting in missed opportunities for transplantation.

Over the last year, the Government has been working to facilitate collaboration on an organ and tissues donation and transplantation system that gives more Canadians access to timely and effective care. Health Canada has led the Organ Donation and Transplantation Collaborative in collaboration with provincial and territorial partners and Canadian Blood Services. Through extensive interviews with stakeholders and individuals with lived experience, this collaboration has identified ways to improve organ donation rates, organ transplant patient care and equity of access.

To help Canada move to a more coordinated and effective approach to organ donation and transplantation, Budget 2019 proposes to provide Health Canada with \$36.5 million over five years, starting in 2019–20, with \$5 million per year ongoing, to develop a pan-Canadian data and performance system for organ donation and transplantation, in collaboration with provincial and territorial partners. This will help to improve consistency and quality in data, allowing more donors and recipients to be effectively matched in order to ensure Canadians have timely and effective access to organ transplant care.

Expanding Health-Related Tax Relief

The Government is committed to ensuring that the tax system reflects the evolving nature of the health care system, while giving Canadians access to the high-quality health services they expect and deserve.

Budget 2019 proposes to expand health-related tax relief under the Goods and Services Tax/Harmonized Sales Tax (GST/HST) system to better meet the health care needs of Canadians by:

- Providing GST/HST relief for Canadians experiencing infertility, as well as single individuals and same-sex couples who are increasingly turning to assisted human reproduction to help build their families, by relieving human ova and *in vitro* embryos of the GST/HST. At present, human sperm is relieved of the GST/HST, while human ova and *in vitro* embryos are not.

- Expanding the list of GST/HST-exempt health care services to specifically include a multidisciplinary health care service, such as when a physician, occupational therapist and physiotherapist combine their expertise and work together as a team to provide a rehabilitation service.
- Allowing the purchase of certain foot care devices to be relieved of the GST/HST on the written order of licenced podiatrists and chiropodists. This proposal reflects the involvement of these health care professionals in the treatment of foot problems.

The changes to the GST/HST health-related measures will be effective March 20, 2019.

The Government is also committed to ensuring that the Medical Expense Tax Credit reflects medically related developments. To this end, the Government will be reviewing the income tax treatment of fertility-related medical expenses under the Medical Expense Tax Credit for fairness and consistency, and in light of work being undertaken by Health Canada in relation to the *Assisted Human Reproduction Act* and supporting regulations.

Enhancing the Federal Response to the Opioid Crisis in Canada

The opioid crisis continues to be Canada's most significant public health crisis in recent years. Its impact has been felt by individuals, families and communities across the country. More than 9,000 lives were lost between January 2016 and June 2018, and many more lives disrupted by the social, economic and health effects of problematic opioid use.

Since 2017, the Government has committed over \$350 million in funding toward a comprehensive public health emergency response to the crisis, including:

- Reducing legislative and regulatory barriers to life-saving harm reduction and treatment—such as by making Naloxone available without a prescription and streamlining the process to establish supervised consumption sites;
- Supporting prevention, such as through new guidelines for the prescription of opioids, restrictions on the marketing of opioids and supporting awareness and stigma reduction amongst Canadians;
- Providing law enforcement with the tools to detect, disrupt and dismantle criminal networks responsible for the proliferation of dangerous street drugs such as fentanyl in our communities; and,
- Improving the Government's knowledge base on opioid-related deaths and harms to help better tailor interventions on the ground.

In Budget 2018, the Government also announced a \$150 million Emergency Treatment Fund. This provided one-time emergency funding to provinces and territories, based on severity of need and population size. Agreements have now been signed with all provinces and territories.

The Government continues to work with experts and partners in order to effectively respond to this evolving crisis. The evidence shows that the risk of harm from the use of illegal drugs, particularly opioids, continues to increase as dangerous narcotics, such as fentanyl and carfentanil, have permeated the illegal drug supply, fuelling this unprecedented rate of overdoses and deaths.

Budget 2019 proposes to provide additional funding of \$30.5 million over 5 years, starting in 2019–20, with \$1 million in ongoing funding, for targeted measures to address persistent gaps in harm reduction and treatment. Specifically, funding will support efforts to expand access to a safe supply of prescription opioids, protecting people with problematic opioid use from the risks of overdose and death. It will also support better access to opioid overdose response training and to Naloxone—a life-saving medication that can stop or reverse an opioid overdose—in underserved communities.

Working With Partners to Address the Rise of Methamphetamine Use

As the opioid crisis evolves, reports from Alberta, Saskatchewan and Manitoba also point to a dramatic increase in problematic use of methamphetamines.

In December 2018, the Government of Manitoba, in partnership with the Government of Canada and the City of Winnipeg announced the creation of the Illicit Drug Task Force to address and respond to the rapid increase in the distribution and use of methamphetamines and other substances.

The task force will determine practical short- and long-term recommendations to combat the use and distribution of illicit drugs, such as methamphetamines, opioids, cocaine and hallucinogens. It is expected to release a report on its recommendations in June 2019.

Supporting a Pan-Canadian Suicide Prevention Service

Deaths by suicide have devastating and immeasurable impacts and leave families, friends, classmates, coworkers and communities struggling with grief. It is the ninth leading cause of death in Canada for the general population and the second leading cause among youth and young adults (aged 10 to 29), after accidents. For every suicide death, there are five self-inflicted injury hospitalizations, 25 to 30 suicide attempts, and 7 to 10 people affected by suicide loss, including family and friends. Thoughts of suicide and suicide-related behaviour are disproportionately prevalent among LGBTQ2+ people, particularly youth, in comparison to their non-LGBTQ2+ peers.

During consultations with the Government, young Canadians have emphasized the need for increased mental health services more than almost any other issue. There are currently many community-based, regional, and provincial/territorial crisis lines offering a wide range of services and operating times, but these are uneven across the country. The U.S. Suicide Prevention Lifeline also receives more than 20,000 incoming calls from Canadian residents each year, however, it is unable to transfer these callers to local Canadian services without a national line in Canada.

■ Budget 2019 proposes to provide \$25 million over five years, starting in 2019–20, with \$5 million per year ongoing, to work with experienced and dedicated partners in the space to support a pan-Canadian suicide prevention service, in order to provide people across Canada with access to bilingual, 24/7, crisis support from trained responders, using the technology of their choice (voice, text or chat). This service will leverage and build on existing services and experiences of partners dedicated to suicide prevention.

Figure 4.2: Impact of Suicide in Canada



Sources: Public Health Agency of Canada analysis of Statistics Canada Vital Statistics Death Database; Canadian Institute for Health Information Hospital Morbidity Database.

Supporting Community-Based Housing for People With Complex Health and Social Needs in Prince Edward Island

Strong communities include shared spaces, where people can come together in a safe environment to find support, build new networks, learn new skills and work to achieve their goals.

■ To this end, the Government is investing \$50.8 million over five years, starting in 2019–20, in Prince Edward Island's Public Safety Housing project. The project will support structured social housing, life skills training, and enhanced access to integrated and assisted technologies. This initiative will primarily help people with complex health and social needs, such as those who require intensive services and have a history that could include a mental health disorder, specialized treatment, multi-system involvement, chronic substance abuse or dependency, or housing instability, to successfully live in their communities.

Supporting a Safe and Non-Discriminatory Approach to Plasma Donation

The Government of Canada is working towards reducing barriers to blood and plasma donation for men who have sex with men.

In 2016, Health Canada approved a reduced blood donation ineligibility period for men who have sex with men from five years to one year from last sexual contact. At the time, the Government also provided \$3.0 million to Canadian Blood Services to strengthen the evidence base supporting a non-discriminatory approach to blood donations. Results of these research projects are expected to be available between now and the winter of 2020 to inform future changes to blood donation policies.

In December 2018, Canadian Blood Services and Héma-Québec submitted proposals to Health Canada to further reduce the blood donation ineligibility period to three months.

To continue to support a safe and non-discriminatory approach to blood donation, Budget 2019 proposes to provide \$2.4 million over three years, starting in 2019–20, for additional research specific to reducing barriers to the donation of blood plasma, which supports crucial treatment for patients with immunodeficiency, leukemia and a wide range of other illnesses. New funding would inform feasibility assessments and pilot testing of new approaches for donation in consultation with key stakeholders, including the LGBTQ2+ community and patients who depend on plasma.

Making Canada Accessible and Supporting People With Disabilities

"Accessibility is the complete ability to join in, participate or attend the activity or conversation as much as anybody else of my age in my community."

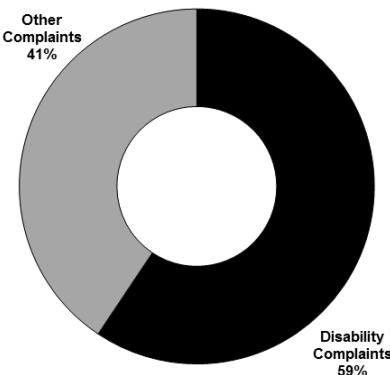
— Accessible Canada consultation participant

Accessibility in Canada is about creating communities, workplaces and services that allow everyone to participate fully in society, without barriers to their inclusion and success. Today, 6.2 million Canadians, or one in 5 Canadians aged 15 and older, report being limited in their daily activities due to a disability. This figure is expected to rise as Canada's population ages.

This growing group of Canadians with disabilities continues to face barriers that limit their ability to take part in many aspects of daily life, including routine activities that most Canadians take for granted. These barriers can be physical (e.g. building without ramps), electronic (e.g. websites that cannot be navigated by people with visual impairments) and attitudinal (e.g. misconceptions of what persons with disabilities can or cannot do). The Government of Canada is committed to building a more accessible, inclusive, and barrier-free Canada where no one is left behind.

Through new investments in Budget 2019, the Government is ensuring persons with disabilities have more opportunities to contribute to our society and our economy, and make Canada a more accessible country for everyone.

Chart 4.1
Discrimination Complaints Received by the Canadian Human Rights Commission



Based on complaints received in 2017/2018

The new Accessible Canada Act, introduced in June 2018, will provide all Canadians, especially Canadians with disabilities, greater and more consistent accessibility across the country, through the proactive identification, removal and prevention of barriers to accessibility in sectors under federal jurisdiction.

- The Government will work with stakeholders and Canadians with disabilities to create new accessibility standards and regulations that will apply to these sectors, which include banking, telecommunications, transportation, and the Government of Canada itself.
- The Act also includes compliance and enforcement measures that will proactively address accessibility barriers in the federal jurisdiction, alleviating the burden on Canadians with disabilities to resort to a formal complaints process.
- Along with the new legislation, the Government announced an investment of \$290 million over six years, starting in 2018–19, to implement the Act, ensure that the federal government leads in accessibility improvements, and promote broader inclusion of persons with disabilities beyond the federal jurisdiction.

To help ensure people with disabilities receive the benefits and credits to which they are entitled, the Government reinstated the Canada Revenue Agency's Disability Advisory Committee in 2017, with a mandate to provide advice on ways to better serve Canadians with disabilities.

The Government also recognizes the recent work of the Standing Senate Committee on Social Affairs, Science and Technology on disability issues. The Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities has also undertaken work on challenges faced by people with episodic disabilities. The Government will be reviewing the advice of these committees as it considers further ways to support Canadians with disabilities.

Supporting Employment for Persons With Intellectual Disabilities and Autism Spectrum Disorders

Persons with intellectual disabilities, and Autism Spectrum Disorders, face unique barriers in finding a job. At the same time, a diverse and inclusive workforce can bring new skills and ideas to employers helping them compete and succeed as they support people in their communities. Further, because persons with disabilities are more likely to be low-income, providing employment opportunities enhances their income security and overall quality of life.

 To improve employment outcomes for persons with intellectual disabilities, and Autism Spectrum Disorders, Budget 2019 proposes to provide \$12 million over three years, starting in 2019–20, to the Canadian Association for Community Living, in partnership with the Canadian Autism Spectrum Disorders Alliance for the Ready, Willing and Able program. The funding will be provided through the Opportunities Fund for Persons with Disabilities.

More Accessible Federal Government Workplaces

To shape a more inclusive federal government, and support the implementation of the *Accessible Canada Act*, the Government intends to lead by example and become a model for accessibility in the workplace. This includes setting and attaining recruitment goals. The Government has committed to hiring at least 5,000 people with disabilities over the next five years.

■■■ In support of this commitment, Budget 2019 proposes to provide Shared Services Canada with additional funding of \$13.7 million over five years, starting in 2019–20, with \$2.9 million per year ongoing, to help identify, remove and prevent technological barriers in federal government workplaces.

Inclusion of Canadians With Visual Impairments and Other Print Disabilities

A print disability is a learning, physical or visual disability that prevents a person from reading conventional print. Based on the 2017 Canadian Survey on Disability, an estimated 2.4 million Canadians over the age of 15 have a print disability. Accessible reading materials (e.g. braille, accessible electronic documents and accessible audiobooks) allow individuals with print disabilities to read and learn, improving their quality of life and opening the door to more opportunities to work, and contribute to their own success and Canada's economy.

Many Canadians with print disabilities find it difficult to access books in fully accessible formats—according to stakeholders, only 10 per cent of published books are made available in an accessible format.

■■■ To address this challenge, Budget 2019 proposes to provide the Centre for Equitable Library Access with an investment of \$3.0 million in 2019–20 to produce new accessible reading materials that will be available through public libraries across Canada.

■■■ The Government is also committed to putting in place a strategy that will ensure the sustainable production and distribution of accessible reading material over the longer term. To that end, Budget 2019 proposes to invest \$22.8 million over five years, starting in 2019–20, to assist Canada's independent book publishing industry in increasing their production of accessible books for persons with print disabilities.

■■■ To improve employment opportunities for persons with visual impairments, Budget 2019 proposes to provide \$1.0 million, in 2019–20, to the Canadian National Institute for the Blind to connect persons with visual impairments to small and medium-sized employers.

■■■ To support the independence of persons with disabilities, Budget 2019 also proposes to invest \$0.5 million in 2019–20 towards finding ways to improve the accessibility of electronic payment terminals to enable persons with disabilities to conduct daily activities, such as paying for their groceries, without relying on others.

Improvements to the Registered Disability Savings Plan

The Registered Disability Savings Plan (RDSP) is designed to help Canadians with severe disabilities, along with their families, save for their long-term financial security. To support this goal of saving for the future, the federal government provides Canada Disability Savings Grants and Canada Disability Savings Bonds to Canadians with severe disabilities. Together, these provide up to \$90,000 in additional support over a beneficiary's lifetime.

Private contributions to an RDSP can attract Canada Disability Savings Grants at matching rates of 100, 200, or 300 per cent, depending on family income and the amount contributed. No private contributions are required to receive the Canada Disability Savings Bond, making this an important financial support for individuals and families with low and modest incomes.

Each year, more Canadians are using RDSPs to save for themselves or for a loved one with a disability. Since RDSPs became available in December 2008, Canadians have opened more than 180,000 RDSPs, and the Government has contributed a total of \$2.2 billion in Canadian Disability Savings Grants and \$1.0 billion in Canada Disability Savings Bonds since the inception of the plan.

To ensure that the RDSP continues to respond to the needs of Canadians with disabilities, Budget 2019 proposes two changes that will better protect the long-term savings of persons with disabilities:

- To open an RDSP, an individual must be eligible for the Disability Tax Credit (DTC). When a beneficiary no longer qualifies for the DTC, the RDSP rules can require that the plan be closed, and grants and bonds be repaid to the Government of Canada. To address concerns that this treatment does not appropriately recognize the financial impact that periods of severe, but episodic, disability can have on individuals, Budget 2019 proposes to eliminate the requirement to close an RDSP when a beneficiary no longer qualifies for the DTC. Doing so will allow grants and bonds otherwise required to be repaid to the Government to remain in the RDSP. To ensure fairness for DTC-eligible beneficiaries, some restrictions on access to these amounts will apply. The estimated cost of this measure is \$109 million over five years, beginning in 2019–20, and \$33 million per year ongoing.
- Unlike RRSPs, amounts held in RDSPs are not exempt from seizure by creditors in bankruptcy. To level the playing field, Budget 2019 also proposes to exempt RDSPs from seizure in bankruptcy, with the exception of contributions made in the 12 months before the filing.

Introducing a Food Policy for Canada

All Canadians should have access to safe, healthy, affordable, culturally appropriate and locally produced food. However, it is estimated that one in eight Canadian households currently experience food insecurity, meaning that they are without reliable access to a sufficient quantity of affordable, nutritious, and culturally appropriate food. Food insecurity is even more pronounced in some more vulnerable segments of the population (e.g. low income households with children; 1 out of every 2 households in Nunavut). Canadians have also expressed concerns about rising levels of food waste, global instances of food fraud, and the availability and affordability of healthy, locally produced foods in Canada.

In response to these concerns, the Government committed to developing A Food Policy for Canada—the first of its kind. The Food Policy for Canada will set out a coordinated and collaborative approach to addressing food-related issues while ensuring that Canada's agriculture and agri-food sector continues to succeed and help grow the economy as a trusted global source of healthy food. The Food Policy for Canada will establish four areas for near-term action, including: 1) Help Canadian Communities Access Healthy Food; 2) Make Canadian Food the Top Choice at Home and Abroad; 3) Support Food Security in Northern and Indigenous Communities; and 4) Reduce Food Waste.

To support food policy priorities in the near term, Budget 2019 proposes to invest \$134.4 million over five years, on a cash basis, beginning in 2019–20, with \$5.2 million ongoing in a suite of new measures. In addition, Budget 2019 proposes to allocate \$100 million over five years, beginning in 2019–20, from the Strategic Innovation Fund, to support innovation in the food processing sector.

Reducing Food Insecurity With Local, Nutritious Foods

Paul and Corinne operate a not-for-profit food bank in Hay River, Northwest Territories. They receive generous donations of fresh raspberries from a local farmer during the growing season, but because of their limited freezer capacity, they are unable to preserve these donations for use in the winter months when fresh fruits are harder to obtain.

With support from the new **Local Food Infrastructure Fund**, Paul and Corinne will be able to purchase additional freezers for the food bank, allowing them to generate less food waste, while addressing food insecurity in the local community with additional healthy, nutritious and locally grown food options throughout the winter.

Figure 4.3: Canada Food Policy



We asked Canadians to tell us their views on how to improve our food system. More than 45,000 shared their views, and we listened. Budget 2019 proposes \$134.4 million in new investments, on a cash basis, to complement existing initiatives in the following areas of action.

HELP CANADIAN COMMUNITIES ACCESS HEALTHY FOOD

- Critically important for a child's education is ensuring they have healthy meals before and during school. Currently, Canada has a mix of different school breakfast and lunch programs, but much more could be done. Budget 2019 announces the Government's intention to work with provinces and territories towards the creation of a **National School Food Program**.
- **Local Food Infrastructure Fund** — \$50 million over five years, starting in 2019-20, in support for infrastructure for local food projects, including at food banks, farmers' markets and other community-driven projects.
- **Buy Canadian Promotion Campaign** — \$25 million over five years, starting in 2019-20, for an advertising and marketing campaign to promote Canadian agricultural products, in collaboration with existing branding initiatives.
- **Tackling Food Fraud** — \$24.4 million over five years, starting in 2019-20, to enhance federal capacity to detect and take enforcement action against instances of food fraud.

MAKE CANADIAN FOOD THE TOP CHOICE AT HOME AND ABROAD

- **Support for Food Processors** — a commitment to invest an additional \$100 million from the Strategic Innovation Fund to support agri-food value added production in Canada.
- More assistance for exporters through the **Export Diversification Strategy** (announced in the 2018 Fall Economic Statement).
- To help the agri-food sector meet Canada's ambitious export targets and attract and retain needed labour, the federal government will launch a **three-year immigration pilot** to bring in full-time, non-seasonal agricultural workers that will include a pathway to permanent residency.

SUPPORT FOOD SECURITY IN NORTHERN AND INDIGENOUS COMMUNITIES

- **Harvesters Support Grant** — a new grant to help lower the high costs associated with traditional hunting and harvesting activities, which are an important source of healthy, traditional food (announced in the 2018 Fall Economic Statement).
- **Northern Isolated Community Initiatives Fund** — \$15 million over five years, starting in 2019-20, to support community-led projects, with funding for equipment such as community freezers, greenhouses, local food production projects, and skills training for local and Indigenous food producers.

REDUCE FOOD WASTE

- **Food Waste Reduction Challenge** — \$20 million over five years, starting in 2019-20, to create a new challenge with funding awarded for the most innovative food waste reduction proposals in three sectors: 1) food processing; 2) grocery retail; and 3) food service.
- **Federal Leadership in Food Waste Reduction** — the Government will refocus \$6.3 million in existing resources over five years, starting in 2019-20, to set new ambitions to lower its own food waste by developing new plans to support federal employees and facilities in reducing their food waste, and to launch a National Food Waste Reduction Forum.

In addition to taking leadership on food waste, the Government is also taking action on plastic waste. Plastics play a major role in our economy and daily lives, however plastic waste is a growing problem in Canada and around the world. Over the past year, Canada led the development of the G7 Oceans Plastics Charter to move towards a more resource-efficient and sustainable approach to managing plastics. A total of 18 countries and 50 companies, universities, non-profit organizations and others have signed onto the Charter. Closer to home, the Canadian Council of Ministers of the Environment is working on an action plan to implement the National Strategy for Zero Plastic Waste. The Government will continue to make efforts on this important issue.

Addressing the Challenge of African Swine Fever

African Swine Fever is a highly contagious viral disease experienced by domestic and wild pigs. While it poses no risk to human health, it can lead to a high number of deaths in infected pigs.

The increasing spread of African Swine Fever incidents in parts of Asia and Europe has increased the risk of the disease spreading to Canada. If African Swine Fever were to enter Canada, hog farmers and meat processors would face significant losses and would be unable to export Canadian pigs and pork products internationally.

The most likely way for African Swine Fever to enter Canada is through the importation of undeclared meat products, brought into the country by travellers or sent to Canada via postal services.

 The Canada Border Services Agency uses detector dogs to screen for food, plant and animal products at international airports. Budget 2019 confirms the Government's plan to provide the Canada Border Services Agency with up to \$31 million over the next five years, starting in 2019–20, with up to \$5.8 million per year ongoing, to increase the number of detector dogs deployed across the country. This will help ensure that no contaminated products enter the country, protecting Canada's hog farmers and meat processors from the serious economic threat posed by African Swine Fever.

The Social Finance Fund

Many Canadians face persistent and complex social challenges that make it difficult for them to succeed and reach their full potential.

In the 2018 *Fall Economic Statement*, the Government proposed to make available up to \$755 million on a cash basis over 10 years to establish a Social Finance Fund.

What Is Social Finance?

Social finance refers to the practice of making investments intended to create social or environmental impact, in addition to financial returns.

The Fund will help charitable, non-profit and other social purpose organizations access financing for projects that will have a positive social impact, such as reducing poverty, expanding employment opportunities for persons with disabilities, or building more affordable housing.

How the Social Finance Fund Will Work:

- Funding will be managed through professional investment managers with expertise in social impact reporting and a proven ability to promote inclusive growth and diversity in the social finance market, to be selected through a competitive selection process in the fall of 2019.
- The fund manager(s) will invest in existing or emerging social finance intermediary organizations that have leveraged private or philanthropic capital for co-investment.
- The fund manager(s) will be required to leverage a minimum of two dollars of non-government capital for every dollar of federal investment, with the exception of investments for Indigenous-led or Indigenous-owned funds.

Under the Social Finance Fund:

- A minimum of \$100 million will be allocated towards projects that support greater gender equality—leveraging existing philanthropic and private sector funds towards this purpose in order to help them reduce the social and economic barriers faced by diverse groups of Canadians of all genders.
- A \$50 million investment will be made in the newly proposed Indigenous Growth Fund.

Further details on the Indigenous Growth Fund can be found in Chapter 3.

■ As announced in the 2018 *Fall Economic Statement*, the Government is also proposing a related investment of \$50 million over two years, starting in 2019–20, to improve the ability of social purpose organizations to successfully participate in the social finance market. This funding will support more robust business planning, provide technical assistance and enable social purpose organizations to develop impact measurement tools to monitor progress achieved.

There are several existing funds already active in Canada's social finance market. Both newly created and existing funds will be able to access the capital available through the Social Finance Fund, including funds such as:

- **VERGE Capital (Ontario)** makes loans to social enterprises in Southwestern Ontario that build affordable housing, provide access to employment and offer training for persons with disabilities, and provide affordable and accessible education materials. Since VERGE was launched in 2014, it has leveraged an additional \$5 from investors for every dollar of provincial support.
- **The Chantier de l'économie sociale Trust (Quebec)** provides patient capital financing to support start-up, expansion and real estate activities of co-operatives and non-profit businesses. The Trust has provided loans to local communities to help restore essential services, and supported programs to help at-risk youth, including Indigenous youth, acquire skills through integrated learning opportunities.
- **The Saint John Community Loan Fund (New Brunswick)** works towards helping individuals and organizations create income and build assets and self-reliance using finance, training and support. For example, the Fund provided: a loan to leverage a mortgage to develop affordable housing units; support for establishing a literacy organization; and capital for an innovation hub to help launch and develop new social enterprises.
- **The Social Enterprise Fund (Alberta)** provides access to loan capital for social entrepreneurs to address challenges in the environment, social issues, local food security, culture and other public benefit missions. For example, the Fund has provided support to mental health organizations to help provide accessible housing for clients, employment opportunities for persons with disabilities, and therapeutic programs for adults and children with physical and mental intellectual disabilities.
- **Renewal Funds (British Columbia)** provides early-stage growth capital to for-profit social enterprises with the potential to create social or environmental change in industries such as clean technology and sustainable agriculture.
- **Jubilee Fund (Manitoba)** is managed by the Assiniboine Credit Union, and provides loan guarantees and bridge financing to non-profit community projects focused on reducing poverty and financial exclusion.

Poverty Reduction Strategy

In August 2018, the Minister of Families, Children and Social Development publicly released a Poverty Reduction Strategy entitled “Opportunity for All”. The Strategy established short-term and long-term targets of 20 per cent poverty reduction by 2020 and 50 per cent poverty reduction by 2030 from the 2015 level, which were enshrined in legislation. The Government reaffirms its commitment to move ahead with legislation to:

- adopt an official poverty line based on a basket of goods and services that Canadians require to achieve a modest standard of living in communities across the country as well as a dashboard of other indicators, such as housing and literacy, to monitor progress;
- create a national advisory council on poverty;
- require the development and implementation of a poverty reduction strategy; and
- designate a responsible Minister and require the Minister to table annual reports to Parliament.

Part 2: Support for Diversity, Culture and the Arts

Across the country, Canada’s artists and their supporters bring people together, to appreciate and celebrate the diversity and creativity that Canadians are known for the world over. Our cultural industries are also an important source of jobs—employing more than 650,000 Canadians—and are a key contributor to our economy, worth nearly \$54 billion each year.

In recent years, the way that Canadians consume cultural content and news has shifted and changed. It’s important that Canadian producers of arts, culture and news are able to adapt to this changing reality and continue to tell our unique stories.

At the same time, rising intolerance and hateful rhetoric, in Canada and around the world, remind us that diversity and a welcoming spirit must be celebrated and nurtured as continued sources of strength for our country.

Offering stronger support for the arts, culture and diversity is one way that the Government—and Canadians—can work together to build a stronger country.

Expanding Support for Artists and Cultural Events

Whether through music, dance, theatre, visual arts or other forms of artistic expression, the arts bring Canadians together in a shared celebration of our history, traditions and cultural diversity, and are an important part of our economy.

With the growing importance of digital media today, Canadian artists—especially musicians and music entrepreneurs (e.g., producers, agents)—now face the challenge of marketing their content internationally and across all platforms, while also putting a greater emphasis on touring and live performances.

To address some of the challenges faced by Canadian musicians in the digital era, Budget 2019 proposes to provide \$20 million over two years, starting in 2019–20, to the Canada Music Fund, so that the Fund can enhance its support for the production, promotion and distribution of Canadian music. With this investment, the Fund will be able to support more Canadian musicians and music entrepreneurs, and help with the rising costs of marketing and promotion necessary in the music industry today.

For musical artists, these investments will create greater opportunities to innovate and experiment on a wider range of digital and non-digital platforms. This, combined with enhanced support for promotion—including more touring and more modern marketing approaches—will ensure that Canadian music reaches more audiences at home and abroad.

Alina is a folk musician who has been writing and performing her music across Canada and Europe since 2003. With the advent of streaming platforms, Alina is no longer able to generate the same income from album sales and as a result she needs to tour more frequently and put on more live performances to make ends meet. She also faces a great deal of competition when it comes to online sales, and needs to market her music more aggressively in order to make herself stand out from the crowd.

With the modernized Canada Music Fund, Alina will have access to more resources and tools to market her music on digital platforms, and will be able to spend more time touring to help her music be heard at home and abroad.

To support the production of more artistic events across the country, Budget 2019 also proposes to provide \$16 million over two years, starting in 2019–20, to the Canada Arts Presentation Fund. This Fund supports not-for-profit professional performing arts organizations—including festivals and performing arts series—in all regions of the country, and provides targeted support for the Confederation Centre of the Arts in Charlottetown, Prince Edward Island. This investment will provide support for professional festivals and performing arts series, as well as emerging arts presenters in underserved areas, and will help support the activities of the Confederation Centre of the Arts. Collectively, this will help bring the talents of Canada’s live performers to more communities across the country, giving more Canadians a chance to see, hear and celebrate Canadians’ talents.

To support more festivals, large-scale and community-based celebrations and commemoration initiatives, Budget 2019 proposes to provide \$24 million over two years, starting in 2019–20, to the Building Communities Through Arts and Heritage Program and the Celebration and Commemoration Program. These types of events bring Canadians together, and help foster a stronger sense of connection between diverse Canadians—especially those from underserved and underrepresented communities—while underscoring our shared interests and values.

In addition, to further support Canadian Heritage’s efforts to integrate Gender-based Analysis plus (GBA+) in program design, Budget 2019 proposes to provide \$1.0 million over two years, starting in 2019–20, to improve the collection of disaggregated data and strengthen reporting requirements for the above mentioned programs in order to better support gender equality and diversity in funding allocations.

Advancing Gender Equality

*"If I can convince you
to make one change
that has the power to
change lives, and
indeed, to save
lives...it is this: invest in
women's
organizations."*

— Kate McInturff, 2017.

Every day across Canada, community organizations lead the way in seeking a more equal society for Canadians of all genders—whether by developing tools to help employers reduce barriers in the workplace, promoting participation in public life, or providing community supports for survivors of gender-based violence. In December 2018, legislation was passed to create the new Department for Women and Gender Equality (formerly Status of Women Canada), with an expanded mandate for gender equality that includes sexual orientation, gender identity and expression.

The Department supports grassroots action with the goal to achieve free and full participation in the economic, social and democratic life of Canada regardless of sex or gender. This is done primarily through the Women’s Program, which supports local, regional and national projects that address the three priorities of the program: ending gender-based violence, improving economic security and prosperity, and encouraging diversity in leadership and decision-making roles.

In Budget 2018, the Government provided \$100 million over five years for the Women's Program to better support the sustainability of women's organizations and equality-seeking groups, with a particular focus on vulnerable women, including Indigenous women, women with disabilities, members of the LGBTQ2+ community, and newcomer, racialized and migrant women.

To further support the Department in its strengthened mandate and continue to advance gender equality in Canada, Budget 2019 proposes a historic investment: \$160 million over 5 years, starting in 2019–20. By 2023–24, the Women's Program will total \$100 million annually. This funding will enable further community action to tackle systemic barriers impeding women's progress, while recognizing and addressing the diverse experiences of gender and inequality across the country.

Improving Women's Economic Security in Moncton, New Brunswick

Through the Women's Program, the New Brunswick Coalition for Pay Equity, Inc. will receive \$335,000 for a 36-month project to determine equitable pay levels for a range of caregiving services in New Brunswick. As part of the *Valuing Private Care Work Offered in the Private Sector* project, funding will also be used to support caregivers in advocating for pay equity, while helping to transform the way in which caregiving is valued in society. By investing in projects that improve women's economic security, the Government is helping to ensure that women, their families and communities can prosper.

In addition, Budget 2019 proposes to provide \$1.5 million over 5 years, starting in 2019–20 to the Treasury Board Secretariat to work with departments receiving Budget 2019 funding to ensure robust administrative data collection and reporting practices with respect to gender-based analysis plus (GBA+) information for all initiatives. The Secretariat will draw on the expertise of Statistics Canada and the Department for Women and Gender Equality in developing standardized frameworks and tools for GBA+ disaggregated data collection and reporting. This will achieve greater consistency and comparability over time and across programs in the aim of improving the inclusiveness of Government of Canada programs.

Expanding the Work of the LGBTQ2+ Secretariat

The Prime Minister's apology to LGBTQ Canadians in 2017 recognized that LGBTQ2+ communities across Canada have been, and continue to be, deeply affected by homophobia, biphobia and transphobia, along with other forms of discrimination, including misogyny and gender-based discrimination. Budget 2017 provided \$3.6 million over three years for the LGBTQ2+ Secretariat, which works with stakeholders across the country to inform the Government's activities on issues related to sexual orientation, gender identity and gender expression.

To further support the Government's commitment to promoting diversity and inclusion, Budget 2019 proposes to provide \$20 million over 2 years, starting in 2019–20 to help address the unique needs and persisting disparities among LGBTQ2+ Canadians by investing in capacity building and community-level work of Canadian LGBTQ2+ service organizations. An additional \$1.2 million in 2020–21 is proposed to support the ongoing establishment of the LGBTQ2+ Secretariat.

Introducing a New Anti-Racism Strategy

Diversity and inclusion are cornerstones of Canadian identity, a source of social and economic strength, and something that all Canadians can be proud of. At the same time, recent events in Canada and abroad have shown that no community is immune to the effects of hateful rhetoric. Around the world, ultranationalist movements have emerged. In Canada, those groups are unfairly targeting new Canadians, racialized individuals and religious minorities—threatening the peace, security and civility of the communities we call home.

Taking its cue from Canadians, the Government is committed to fostering and promoting a Canada where every person is able to fully and equally participate in our country's economic, cultural, social and political life. Initiatives like the Multiculturalism Program support this work, with projects that work toward the elimination of discrimination, racism and prejudice in communities across Canada.

Budget 2018 provided \$23 million over two years to support cross-country consultations on a new national anti-racism approach, as well as to increase funds for the Multiculturalism Program to address racism and discrimination targeted against Indigenous Peoples, and women and girls.

Budget 2018 also provided more than \$19 million over five years as a first step towards recognizing the significant and unique challenges faced by Black Canadians in Canada. These funds focused on Black youth and enhancing mental health supports for the Black community. Funding of \$6.7 million over five years was also provided to Statistics Canada to create a new Centre for Gender, Diversity and Inclusion Statistics which will increase the disaggregation of various data sets by race, with a particular focus on the experience of Black Canadians. This will inform better policy making, taking into consideration the diversity of our population.

Supporting Diversity Across Canada

The Multiculturalism Program is one of the ways the Government supports and promotes the *Canadian Multiculturalism Act*. It works to promote inclusion, equality and equity, through support for community-based events and projects. In November 2017, the Multiculturalism Program provided \$1.2 million in funding for four Edmonton-area projects, including the Edmonton Centre for Race and Culture's *Unheard Youth Voices* project, which will produce a podcast about migration, identity and belonging by sharing the stories of connections between migrant and Canadian-born youth.

The Multiculturalism Program also supports international engagement, and direct public outreach and promotional activities such as Asian Heritage Month and Black History Month.

The Government will continue to listen to Canadians, seeking ways to improve engagement with the federal government, foster greater public awareness of systemic racism and discrimination, and looking for opportunities to strengthen support for underrepresented communities.

Building on previous commitments, Budget 2019 proposes to provide \$45 million over three years, starting in 2019–20, to support a new Anti-Racism Strategy. Its key purpose will be to find ways to counter racism in its various forms, with a strong focus on community-based projects. These projects could include developing new public educational materials or programs that help to build skills and provide leadership and employment opportunities. At the core of this strategy will be an Anti-Racism Secretariat that will work across government to identify opportunities, coordinate activities and engage with our diverse communities. Further details on the Anti-Racism Strategy and the Secretariat will be announced at a later date.

In addition, in recognition of the United Nations International Decade for People of African Descent, Budget 2019 proposes to provide \$25 million over five years starting in 2019–20, for projects and capital assistance to celebrate, share knowledge and build capacity in our vibrant Black Canadian communities.

Enhancing Support for Minority-Language Education in Canada

In 2019, Canada celebrates the 50th anniversary of the *Official Languages Act*, which gives equal status to French and English in the Government of Canada. The Government recognizes that Canada's proud tradition of linguistic duality can only truly thrive with the presence of strong, vibrant minority-language communities across the country. Today, there are more than one million Francophones living outside Quebec and similar number of Anglophones—1.1 million—living in Quebec.

Because the contributions of official language minority communities are vital to Canada's success, they are a key part of the new Action Plan for Official Languages announced in 2018—with total new investments of \$499.2 million over five years.

Every year, the Government provides more than \$235 million to provinces and territories for minority-language education and second-language instruction—through the *Protocol for Agreements for Minority-Language Education and Second-Language Instruction*. Through this Protocol:

- Members of official language minority communities in each province or territory have opportunities to be educated in their own language;
- Residents of each province or territory have opportunities to learn English or French as a second language; and
- All Canadians have opportunities to learn more about the cultures associated with the French-language or English-language minority communities.

With a rising number of minority-language students across the country, the Government recognizes the costs and unique challenges faced by these communities, and has set aside additional funds to enhance its support for minority-language education, as it works with provinces and territories to finalize the next Protocol.

Any additional funding will be conditional upon the conclusion of a new Protocol, or subject to new bilateral agreements, which would include commitments by the provinces and territories regarding accountability with respect to the use of federal investments, and regular consultations with stakeholders, including school boards, in the design of related action plans. These agreements would allow Canadians to better assess and understand the impact of federal investments on the vitality of our official languages communities across Canada.

Supporting Canadian Journalism

A strong and independent news media is crucial to a well-functioning democracy. Recognizing the vitally important role the media play in helping citizens make informed decisions about important issues, in the 2018 *Fall Economic Statement* the Government announced its intention to introduce three new tax measures to support Canadian journalism:

- A new refundable tax credit for journalism organizations.
- A new non-refundable tax credit for subscriptions to Canadian digital news.
- Access to charitable tax incentives for not-for-profit journalism.

As previously announced, the Government will establish an independent panel of experts from the Canadian journalism sector to assist the Government in implementing these measures, including recommending eligibility criteria.

Given the importance of ensuring that media outlets are able to operate with full independence, the Government proposes to establish an independent administrative body that will be responsible for recognizing journalism organizations as being eligible for any of the three measures.

Further details are available in Tax Measures: Supplementary Information.

Supporting Donations of Cultural Property

To encourage Canadians to donate cultural property of “outstanding significance” and “national importance” to certain designated institutions in Canada, such as museums and public art galleries, the Government provides special tax incentives. These incentives help to ensure that important cultural property remains in Canada, for the benefit of Canadians.

A recent court decision related to the interpretation of “national importance” has created uncertainty about the availability of these tax incentives. Budget 2019 proposes to introduce legislative amendments to ensure that these tax incentives continue to be available for donations of cultural property of outstanding significance made to designated institutions in Canada.

This measure will apply in respect of donations made on or after Budget Day.

Ensuring a Safe and Healthy Sport System

It is important, especially in the era of the #metoo movement, that we continue taking strong action to protect Canadians participating in sport by ensuring a safe and healthy sport system. In June 2018, the Minister of Science and Sport announced a new policy to address abuse, discrimination and harassment in sport. The national and international sporting environment, from community participation to the highest level of competition, are facing ongoing and emerging issues that negatively impact our athletes and threaten the integrity of sport.

Together, the Minister of Science and Sport and the Minister of Health announced new concussion guidelines for safe return to school, work, and play. Recently, the Government supported the launch of a parliamentary sub-committee focused on studying sport-related concussions. These additional measures are adding significant financial pressures on our country's sports organizations.

 Budget 2019 proposes to provide \$30 million over five years, starting in 2019–20, with \$6 million per year ongoing, to enable Canadian sports organizations to promote accessible, ethical, equitable and safe sports. This funding will go a long way to ensuring a higher standard for Canadian families, athletes and coaches.

Part 3: Support for Canada's Veterans and Their Families

Canada's veterans have bravely defended our country's most cherished values—openness, democracy, and respect for human rights—and the peace and security we enjoy today. It is our responsibility to ensure that all veterans and their families receive the support and services they need, when they need it. This is a promise the Government has made on behalf of all Canadians, and it is working hard to deliver on this commitment.

Starting on April 1, 2019, the Government's new Pension for Life will provide a combination of benefits that recognizes the sacrifices made by members of the Canadian Armed Forces and by veterans experiencing a service-related illness or injury. These benefits will give veterans the income support and stability they need, and the power to decide what form of compensation works best for them and their families. The Pension for Life simplifies the existing range of benefits and services, which will make it easier for veterans to understand and access support, and help Canadian Armed Forces members make a more seamless transition out of military life.

The Pension for Life benefits represent an investment of close to \$3.6 billion in support of Canada's veterans. When combined with previously announced programs that assist with education, employment, caregiver support and physical and mental health, the Government of Canada's investments in veterans' initiatives totals over \$10 billion since 2016.

While these investments are already making a difference in the lives of our veterans, it is also clear that veterans' needs and the needs of their families and caregivers will continue to evolve. The Government will continue to work hard to ensure that these needs are met, so that all veterans can enjoy a good quality of life and a successful transition following their years of dedicated service to our country.

Supporting Veterans as They Transition to Post-Service Life

For some service members, the transition to post-service life, can be difficult. This is especially true for those who leave service due to illness or injury. Navigating the transition process can be complicated and time-consuming—exacerbated by the considerable paperwork involved—and can be particularly challenging for service members who lack family support and are navigating the transition process on their own.

Budget 2019 proposes a number of initiatives to make the transition process simpler and seamless for veterans, including, for example:

- Expanding access to support provided by the Canadian Armed Forces Transition Group to ensure that members of the Canadian Armed Forces—not just those who are ill and injured—benefit from personalized support services.
- Enhancing training available on transitioning to civilian life, to improve members of the Canadian Armed Forces' knowledge of programs, benefits and available services.
- Launching a new online questionnaire to help Veterans Affairs Canada identify members of the Canadian Armed Forces at risk of a difficult transition and proactively inform them about the services and benefits that may help them most.
- Improving service to departing members by making benefit application and information sharing between Veterans Affairs Canada and the Department of National Defence simpler and more streamlined.
- Launching a personalized transition guide, available through a service member's My VAC Account, to help them better navigate the process from beginning to end.

In addition, in Budget 2019 the Government proposes to amend legislation to expand eligibility for the Education and Training Benefit, so that members of the Supplementary Reserve can access the Benefit. Launched on April 1, 2018, the Education and Training Benefit provides veterans with up to \$80,000 for education. Supplementary Reservists—who were previously ineligible for this benefit—will now have access to this additional support to help them transition to post-military careers and life.

With these examples and measures to improve administrative processes, veterans and members of the Canadian Armed Forces will be better supported as they transition out of service life. To support these measures, Budget 2019 proposes to provide Veterans Affairs Canada and the Department of National Defence with \$135.1 million over six years, beginning in 2018–19, with \$24.4 million per year ongoing.

Nicole: A successful transition to post-service life

Nicole is a Corporal with the Canadian Armed Forces. During her second tour in Afghanistan, she was injured during a training exercise, causing nerve damage to her right leg. Nicole returned to Canada and was posted to the Canadian Armed Forces Transition Unit for rehabilitation. It eventually became clear that the damage to Nicole's leg was permanent, and she would not be able to return to active duty.

She was contacted by both Canadian Armed Forces (CAF) and Veterans Affairs Canada (VAC) case managers to develop a transition strategy for her and her husband, Marc-André. Through this process, Nicole's case manager helped her identify the programs and services from CAF and VAC that would help provide her family with the assistance they needed, including Pain and Suffering Compensation, rehabilitation and income replacement.

After her release, Nicole and Marc-André moved to a new city. Her Income Replacement Benefit—which provides her with 90 per cent of her pre-release salary—has helped free Nicole to focus on her rehabilitation. Volunteering at her local homeless shelter is also helping Nicole find a new sense of purpose. Confident that her skills and experience will allow her to continue to help people, Nicole is now working with a counsellor through VAC's Career Transition Services to find and follow a path to a new career.

Supporting Research on Military and Veteran Health

Military members, veterans and their families face unique health challenges due to the nature of military service. Compared to the general Canadian population, veterans experience higher levels of physical and mental health challenges, including higher rates of post-traumatic stress disorder, chronic pain and suicide.

Improving health outcomes for veterans requires an in-depth understanding of the health challenges they face, and calls for an innovative approach to supporting military members, veterans and their families, supported by research that focuses on their specific needs.

 The rate of chronic pain among veterans, in particular, is almost double that of the general Canadian population. Budget 2019 proposes to create a Centre of Excellence on Chronic Pain Research. Working closely with veterans, partners and experts in the field, the Centre will help ensure that veterans' chronic pain realities are reflected in research on chronic pain treatment, and help pilot innovative therapies and enhance treatment options. To support the centre, Budget 2019 proposes to provide Veterans Affairs Canada \$20.1 million over five years, starting in 2019–20, with \$5 million per year ongoing.

This work will be complemented by that of the Canadian Institute for Military and Veteran Health Research (CIMVHR), which brings together a network of 43 Canadian university members, 10 global affiliates, four philanthropic organizations, three industry partners, several government departments and more than 1,700 researchers—all committed to improving the way that Canada cares for members of the military, veterans and their families. Organizations like the Royal Canadian Legion that need to develop effective, evidence-based services for veterans and their families rely on the research done by CIMVHR.

 To ensure that the Canadian Institute for Military and Veteran Health Research can continue to respond to the unique health needs of military members, veterans and their families, Budget 2019 proposes to provide Veterans Affairs Canada with \$25 million over 10 years, starting in 2020–21, to fund CIMVHR's ongoing operations.

Supporting Veterans' Families

Veterans committed their lives to our country, with their partners at their side. The Government is committed to ensure that service men and women, and their spouses, are cared for.

 To better support veterans who married over the age of 60 and their spouses, Budget 2019 announces a new Veterans Survivors Fund committing \$150 million over 5 years starting in 2019–20 to Veterans Affairs Canada. With these funds, the Government will work with the community to identify impacted survivors, process their claims and ensure survivors have the financial support they need. The Government will announce additional details on this measure in the coming months.

Commemorating Canada's Veterans

A big part of this Government's commitment to veterans and their families is ensuring their stories live on. It is our responsibility to honour their service, dedication and sacrifice.

Many organizations and people across Canada and abroad take it upon themselves to organize tributes and commemorative activities for veterans. Remembering all that Canada's veterans have done during times of war, military conflict and peace helps us to better understand our nation's history and its future.

In honour and remembrance of those who have served during times of conflict, the Highway of Heroes project will see 2 million trees being planted between Trenton and Toronto: one tree for every Canadian that has served since Confederation. So far, over 90,000 trees have been planted.

 To support the Highway of Heroes project, Budget 2019 proposes to provide funding of \$2.9 million over three years, starting in 2019–20, to the Highway of Heroes Fund, through Veterans Affairs Canada.

The Juno Beach Centre is a Second World War museum in Normandy, France, that pays homage to the Canadians who lost their lives during the Second World War. The Centre's mandate is to preserve the legacy of all Canadians who served during the Second World War for future generations. The Centre has been receiving operating funding from Veterans Affairs Canada since 2007.

 To help the Centre continue to deliver its mandate, Budget 2019 provides \$2.5 million over five years, starting in 2019–20 to Veterans Affairs Canada.

 Many young Métis men and women served in the Canadian Forces during the Second World War. To recognize the contribution of Métis veterans to the country's Second World War efforts and to commemorate the sacrifices and achievements of all Métis veterans, Budget 2019 provides \$30 million to Veterans Affairs Canada in 2019–20.

Part 4: Public Safety and Justice

Canada is among the safest countries in the world. As Canadians, we enjoy a high standard of living, supported by strong public and democratic institutions, including a world-class justice system.

At the same time, Canada is part of a rapidly changing and evolving world. From the threats to our communities posed by climate change to the risks to our democracy as a result of disinformation campaigns to the dangers of child sexual exploitation online, we must be vigilant in upholding the rule of law, and detecting, assessing and responding to the things that challenge our security and threaten our values.

Safeguarding the Integrity of Our Institutions and Infrastructure

Protecting Canada's Critical Infrastructure From Cyber Threats

Canadians expect that the systems they use and rely on every day—things such as banking, transport, telecommunications, and energy—are protected from cyber security threats and vulnerabilities. As Canada's critical infrastructure systems become more and more interconnected, and essential services are increasingly managed online, cyber incidents or attacks against critical infrastructure have the potential to seriously compromise national security and public safety. To defend against this, the Government is taking action to protect the critical cyber systems that underpin the infrastructure and services that are integral to the daily lives of Canadians, and to the health and security of Canada's economy.

A safe and secure cyber space is important for the security, stability and prosperity of Canada. Through Budget 2018, the Government took action to strengthen Canada's cyber security, committing \$507.7 million over five years starting in 2018–19 and \$108.8 million per year ongoing to support Canada's first comprehensive National Cyber Security Strategy and to establish the Canadian Centre for Cyber Security.

To strengthen the cyber security of Canada's critical infrastructure, Budget 2019 builds on these investments and proposes \$144.9 million over five years, starting in 2019–20, including \$22.9 million from within existing Communications Security Establishment resources. This investment will help to protect Canada's critical cyber systems including in the finance, telecommunications, energy and transport sectors. To this end, the Government intends to propose new legislation and make necessary amendments to existing federal legislation in order to introduce a new critical cyber systems framework. Funding will also support the Canadian Centre for Cyber Security in providing advice and guidance to critical infrastructure owners and operators on how to better prevent and address cyber attacks.

Growing Canada's Advantage in Cyber Security

Digital technologies are increasingly knitted into the lives of Canadians. New technologies—like the fifth generation (5G) telecommunications networks that will enable autonomous vehicles and smart cities—create exciting opportunities in the form of good, well-paying jobs and new products and services.

As rapid growth in the digital economy continues, safeguarding cyber security has become a priority for governments, businesses and individuals. According to Statistics Canada, Canadian businesses reported spending \$14 billion in 2017 to prevent, detect, and recover from cyber security incidents. Workers with cyber security skills are increasingly in demand and cyber security innovation must keep pace with technological change as new risks emerge.

Canada's highly skilled workforce and world-class universities means that Canada is primed to lead in cyber security research, innovation and talent development. University-affiliated cyber and information security centres in Canada have emerged to help advance Canada's cyber capabilities. These include Ryerson University's Cybersecure Catalyst, the University of New Brunswick's Canadian Institute for Cybersecurity, University of Calgary's Institute for Security, Privacy and Information Assurance and Concordia University's Centre for Cybersecurity, among others.

To promote collaboration between Canadian cyber security centres of expertise, Budget 2019 proposes to provide \$80 million over four years, starting in 2020–21, to support three or more Canadian cyber security networks across Canada that are affiliated with post-secondary institutions. The networks—to be selected through a competitive process—will expand research, development and commercialization partnerships between academia and the private sector, and expand the pipeline of cyber security talent in Canada. Additional details on this program will be announced in the coming months.

Protecting Democracy

At the heart of Canada's democracy are its institutions. In recent years, however, these institutions have increasingly come under threat from foreign influence and disinformation campaigns, fuelled by new technology and the rise of social media. This has created new avenues for malicious actors to interfere with the democratic process, as evidenced by numerous attempts to influence election outcomes around the world, including in well-established Western democracies. Canada is not immune to these threats. If left unchecked, these threats may weaken these important pillars of democracy, eroding public trust and putting the future of our democracy at risk.

In light of these threats, the Government has taken action to prevent foreign interference in our federal elections. Recent updates to the *Canada Elections Act* have reinforced protections that prevent foreign actors from using money to influence the outcome of elections and that inhibit the use of malicious technologies.

To further strengthen and safeguard Canada's democratic institutions, Budget 2019 proposes to invest \$30.2 million over five years to implement a number of new measures:

- To protect Canada's democratic institutions from cyber attacks, the Government is proposing to provide the Communications Security Establishment with additional funding of up to \$4.2 million over three years, starting in 2019–20, to provide cyber security advice and guidance to Canadian political parties and election administrators.
- To strengthen cooperation and information sharing in response to foreign threats to our democracies, G7 Leaders agreed during the June 2018 Summit in Charlevoix to each set up a Rapid Response Mechanism unit, with Canada taking on an added coordination role on behalf of the network. To support this commitment, the Government proposes to provide Global Affairs Canada with \$2.1 million over three years, starting in 2019–20.
- To strengthen Canadians' resilience to online disinformation and to help ensure Canadians have access to a wide range of transparent, high-quality information, Budget 2019 proposes to provide the Department of Canadian Heritage with \$19.4 million over four years, starting in 2019–20, to launch a Digital Democracy Project. Funding would support research and policy development on online disinformation in the Canadian context. This investment would also enable Canada to lead an international initiative aimed at building consensus and developing guiding principles on how to strengthen citizen resilience to online disinformation. These guiding principles would then be adopted by Canada and other likeminded countries as a framework for efficient cooperation between governments, civil society organizations, and online platforms.

The Digital Citizen Initiative

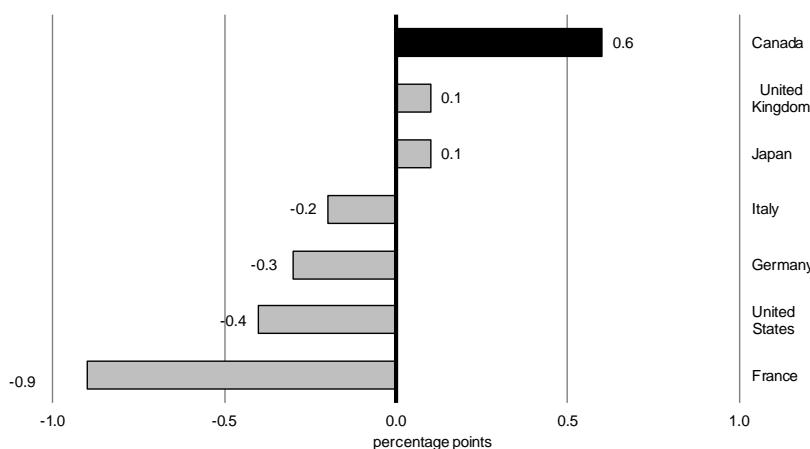
Earlier this year, the Government committed to provide the Department of Canadian Heritage with \$7.5 million over two years, starting in 2018–19, for the Digital Citizen Initiative, which supports digital, news, and civic literacy programming and tools, ahead of the 2019 General Election. This will help to equip Canadians with a better understanding of deceptive practices used online, and give people the tools they need to navigate the internet, including tools to help them better understand the information they consume online.

Protecting Canada's National Security

Canada is a first-class investment destination. As evidence of its attractiveness as a place to do business and invest, Canada was the only G7 country to witness a material improvement in inward Foreign Direct Investment (FDI) flows for the first three quarters of 2018 relative to one year earlier (Chart 4.2). Worldwide, inward flows of FDI declined by roughly 25 per cent for the same period.

Chart 4.2

Change in Inward Foreign Direct Investment Flows as a Share of GDP (year-to-date, 2018)



Notes: Data on foreign direct investment flows and GDP for 2017 and 2018 cover the period Q1 to Q3. Data for 2018Q4 are not yet available.

Sources: Organisation for Economic Co-operation and Development; Department of Finance Canada calculations.

Foreign investments and trade help businesses to succeed and grow, creating more good, well-paying jobs and delivering strong economic growth that benefit all Canadians. At the same time, it is critical that the Government has the tools and resources it needs to protect against economic-based security threats, including the ability to safeguard against theft of our Canadian intellectual property and Canadian-made technologies, and against Canada's research and development activities being used as "back-door" channels to obtain sensitive Canadian technologies.

To support efforts to assess and respond to economic-based security threats, Budget 2019 proposes to invest \$67.3 million over five years, starting in 2019–20 and \$13.8 million per year ongoing, to Public Safety Canada; Innovation, Science and Economic Development Canada; Global Affairs Canada; and the Royal Canadian Mounted Police, among other federal agencies. These departments and agencies will work together in a coordinated way to enhance outreach and engagement with key stakeholders including Canadian businesses and academic institutions; raise awareness about risks; and enhance the suite of tools to appropriately address threats while continuing to encourage foreign investment, trade and economic growth.

Enhancing Accountability and Oversight of the Canada Border Services Agency

The Canada Border Services Agency (CBSA) plays a vital role enforcing laws governing trade and travel, while stopping potential threats at the Canadian border. In carrying out these duties, the CBSA relies on border services officers who engage with the public at various ports of entry—highway crossings, airports, marine terminals, rail ports, and postal facilities. Border services officers enforce laws and regulations that touch nearly every sector of Canadian society, including our agriculture, manufacturing and service sectors.

■ While the Canada Border Services Agency has procedures in place to hear comments or complaints about the public's experience with the Agency, Budget 2019 proposes to invest \$24.42 million over five years, starting in 2019–20, and \$6.83 million per year ongoing, to expand the mandate of the Civilian Review and Complaints Commission for the RCMP.

To do this, in Budget 2019, the Government proposes to amend the *Canada Border Services Agency Act*, the *Royal Canadian Mounted Police Act* and other Acts, as required, to expand the Civilian Review and Complaints Commission to act as an independent review body for the Royal Canadian Mounted Police and the Canada Border Services Agency.

Strengthening the Royal Canadian Mounted Police (RCMP)

The RCMP is Canada's national police service, responsible for preventing and investigating crimes, enforcing laws and working with other police and law enforcement agencies. The RCMP protects Canada's national security, reduces the threat and impact of organized crime, and supports crime prevention, intervention and enforcement initiatives.

As the safety and security needs of Canada evolves, so too do the needs of the RCMP. Emerging areas of policing such as cybercrime and money laundering require the RCMP to constantly look at ways to enhance federal enforcement capacity and support operational readiness. To this end, Budget 2018 funding provided targeted support to bolster the RCMP's capacity to fight cybercrime, including through the creation of the National Cybercrime Coordination Unit. In addition, Budget 2018 supported critical investments for the RCMP to renew its radio systems in four divisions, ensuring that front-line officers have the tools they need to serve Canadians.

The RCMP is also exploring ways to become a more modern organization. In January 2019, the Government announced the establishment of the Interim Management Advisory Board which will provide expert advice to support the RCMP as a modern and effective organization. The Government proposes to introduce legislative amendments to the *Royal Canadian Mounted Police Act* and other Acts, as required, in order to establish the Management Board for the RCMP.

 Budget 2019 builds on these measures and proposes to provide the RCMP with:

- \$508.6 million over five years to support policing operations
- \$77.3 million over five years and \$13.5 million ongoing for enhanced law enforcement at the border
- \$68.9 million over five years and \$20 million ongoing for enhanced federal policing capacity, including to fight money laundering
- \$11.5 million over three years to support transportation security
- \$5.7 million over five years and \$1.2 million ongoing to protect national economic security.

Enhancing the Integrity of Canada's Borders and Asylum System

Canada has a strong reputation as a fair and welcoming country, but one that is also governed by the rule of law. Securing the integrity of Canada's borders and of our asylum system is essential to making sure we continue to benefit from a world-class immigration system.

In recent years, elevated numbers of asylum seekers, including those that have crossed into Canada irregularly, have challenged the fairness and effectiveness of Canada's asylum system. To help address these challenges, the Government will implement a comprehensive *Border Enforcement Strategy*. Through this Strategy, Canadian immigration, border, and law enforcement officials—including from the Canada Border Services Agency and the Royal Canadian Mounted Police—will be better positioned to detect and intercept individuals who cross Canadian borders irregularly and who try to exploit Canada's immigration system. Failed asylum claimants who entered into Canada at irregular crossings or between official ports of entry will also be removed on a priority basis.

To support implementation of the *Border Enforcement Strategy*, and to process 50,000 asylum claims per year, as well as to facilitate removal of failed asylum claimants in a timely manner, Budget 2019 proposes to invest \$1.18 billion over five years, starting in 2019–20, and \$55.0 million per year ongoing. Additional resources will be provided to strengthen processes at the border, and accelerate the processing of claims and removals, to ensure the asylum system remains available to those genuinely in need of refugee protection. The investment will also expand a pilot project that aims to increase efficiencies among delivery partners in the pre-hearing process for refugee protection claims.

In addition, Budget 2019 proposes to introduce legislative amendments to the *Immigration and Refugee Protection Act* to better manage, discourage and prevent irregular migration. New resources for immigration and refugee legal aid will build on previous investments, supporting the delivery of legal services, while new Federal Court judicial positions will help ensure efficient and timely processing of asylum claimants seeking judicial review. To do this, the Government intends to introduce amendments to the *Federal Courts Act* to create three new judicial positions.

Protecting People From Unscrupulous Immigration Consultants

Individuals seeking to immigrate to Canada or become citizens often rely on the advice and expertise of immigration consultants to help them navigate our immigration rules. However, these individuals can be the victims of unscrupulous immigration consultants who prey on their lack of knowledge of Canadian laws and regulations.

To help protect newcomers and applicants wishing to obtain the services of legitimate service providers, Budget 2019 proposes to provide \$51.9 million over five years, starting in 2019–20, and \$10.1 million per year ongoing. Funding will improve oversight of immigration consultants and strengthen compliance and enforcement measures. It will also support public awareness activities that will help vulnerable newcomers and applicants protect themselves against fraudulent immigration consultants. These measures will help to ensure that all applicants have access to quality immigration and citizenship advice, and that those who are providing the services operate in a professional and ethical manner, with disciplinary powers in place should fraud or misrepresentation occur.

In addition, the Government proposes to introduce legislation and propose amendments to the *Immigration and Refugee Protection Act* and the *Citizenship Act* in order to implement these measures.

Improving Canada’s Ability to Prepare for and Respond to Emergencies and Natural Disasters

Ensuring Better Disaster Management Preparation and Response

The annual economic costs of disasters around the world have increased five-fold since the 1980s, and Canada has not been immune to this trend, as disasters resulting from the impacts of climate change have increased in frequency and severity across the country. The 2016 Fort McMurray wildfires, for example, resulted in an estimated \$3.6 billion in insured damages. In addition to large-scale disasters such as this, over 195 major disasters have been recorded between 2008 and 2018.

Events related to climate change—such as wildfires and floods—are becoming more severe, more frequent and more costly for Canadians and their communities. These events can threaten people’s safety, result in the loss of personal and public property, and in the most tragic circumstances, can also end with the loss of lives. Together, they can cause significant emotional distress for Canadians, and can also undermine Canada’s economic stability and national security.

To strengthen Canada’s ability to respond to such emergencies, Budget 2019 proposes to invest \$151.23 million over five years, starting in 2019–20, and \$9.28 million per year ongoing, to improve emergency management in Canada, including in Indigenous communities. This investment will improve Canada’s ability to predict and respond to threats through the use of early warning systems, and enhance our understanding of the nature of the risks posed by floods, wildfires and earthquakes. In addition, this investment will help to assess the condition and resilience of Canada’s critical infrastructure—including energy grids, water and food supplies and health services—in the aftermath of a natural disaster.

 Budget 2019 also proposes to provide \$5.0 million over five years, starting in 2019–20, to Public Safety Canada to develop all-hazard awareness-raising activities that are targeted to specific, at-risk audiences such as low-income Canadians, seniors, people with disabilities, recent immigrants, and Indigenous Peoples.

 To support response and recovery efforts in the wake of large-scale natural disasters, Budget 2019 also proposes to provide \$260 million over two years, on a cash basis, starting in 2019–20, to Public Safety Canada to support provincial and territorial disaster relief and recovery efforts through the Disaster Financial Assistance Arrangements Program.

Improving Emergency Medical Response in Western Canada

When tragedy strikes, every second counts. Since 1985, the Shock Trauma Air Rescue Service (STARS) has provided rapid and specialized emergency helicopter ambulance services to patients who are critically ill or injured in communities across Manitoba, Saskatchewan, Alberta and parts of British Columbia, including Indigenous communities and national parks. Thanks to STARS, Western Canadians living in rural and remote communities have access to emergency care.

 In recognition of the vital role that STARS plays in delivering access to emergency care for the communities it serves, the Government proposes to provide a one-time investment of \$65 million in 2018–19 for STARS to replace its aging fleet and acquire new emergency ambulance helicopters. This funding will be made available through Public Safety Canada.

Protecting Vulnerable Canadians From Violence and Exploitation and Promoting Access to Justice

Protecting Children From Sexual Exploitation Online

The sexual exploitation of a child is a reprehensible crime causing life-long harm and suffering to victims. While the internet has created new ways for people from around the world—including children—to connect and interact, it has also created new spaces and platforms for online predators to lure child victims for sexual purposes.

 To better protect children from these threats, and building on investments in Budgets 2017 and 2018 to combat child sexual exploitation through *It's Time: Canada's Strategy to Prevent and Address Gender-Based Violence*, Budget 2019 proposes to invest a further \$22.24 million over three years, starting 2019–20, to combat child sexual exploitation online. This funding will support Public Safety Canada's efforts to raise awareness of this serious issue, reduce the stigma associated with reporting, increase Canada's ability to pursue and prosecute offenders, and work together with industry to find new ways to combat the sexual exploitation of children online.

Combatting Human Trafficking

Human trafficking is a complex crime that involves the recruitment, transportation and harbouring of persons and/or control of their movements for the purpose of exploiting them. This includes both sexual and labour-based exploitation and also the use of threats, violence, abduction, fraud or other forms of coercion. Individuals at greatest risk of victimization include persons who are socially or economically disadvantaged, women and girls, youth and children, Indigenous Peoples, refugees and migrants, LGBTQ2+ persons and persons with disabilities. The Government is committed to preventing gender-based violence and protecting vulnerable populations from human trafficking. Building on investments announced in Budget 2018 to establish a National Human Trafficking Hotline, the Government intends to develop a new whole-of-government strategy to combat human trafficking.

Giving Canadians Better Access to Public Legal Education and Information

Navigating Canada's complex legal system can be daunting. Canadians deserve to have access to information and services that help them understand and exercise their legal rights. Across Canada, Public Legal Education and Information organizations provide people who may face barriers to accessing justice—such as newcomers to Canada, people who are elderly or live with a disability, and people who cannot afford access to a lawyer—with services to better understand their legal rights. As Canada's population continues to grow, and as the law becomes more complex, demand for these services is on the rise.

To help Canadians gain access to the legal education and information they need, Budget 2019 proposes to provide the Department of Justice Canada with an additional \$8.1 million over five years, starting in 2019–20, with \$1.62 million per year ongoing, to support the work of Public Legal Education and Information organizations across Canada.

Supporting Access to Family Justice in the Official Language of One's Choice

Divorce and separation affect Canadians from all walks of life. Ensuring that Canadians can access the family justice system using either official language can provide additional reassurance and support to people and families at a difficult time.

To support access to family justice in both official languages, Budget 2019 proposes to provide the Department of Justice with \$21.6 million over five years, starting in 2020–21, to support legislative amendments that provide for increased access to family justice—and divorce in particular—in the official language of one's choice. This funding will help improve the availability of bilingual services in the family justice system, and will be delivered through the Department of Justice Canada.

Protecting Community Gathering Places From Hate-Motivated Crimes

Canadians of all backgrounds and identities should always feel safe to gather together. This is how we meet new friends, support our neighbours and build strong communities. Unfortunately, as recent tragic events have demonstrated, certain groups of people, because of their race, religion, or sexual orientation, are at risk of being targeted by hate-motivated crimes, threatening their safety and security and the gathering places they enjoy.

To make needed security improvements to important community gathering spaces—such as schools, community centres, and places of worship—Budget 2019 proposes to provide an additional investment of \$2 million per year, starting in 2019–20, doubling the size of Public Safety Canada’s Security Infrastructure Program from \$2 million per year to \$4 million per year until 2021–22. This builds on the measure adopted in Budget 2017, which doubled the original budget of the Security Infrastructure Program for five years. The Program is a component of Public Safety Canada’s National Crime Prevention Strategy. This Program aims to make Canada’s community gathering spaces safer places to live, work, and play.

Part 5: Canada’s International Engagement

Canada plays a leading role in the world by standing up for human rights and democracy, promoting free and progressive trade, and providing assistance to some of the world’s most vulnerable citizens. The values that underpin these actions help to define who we are as Canadians, and contribute to both the prosperity of Canadians at home and Canada’s future as a leader in an increasingly interconnected world.

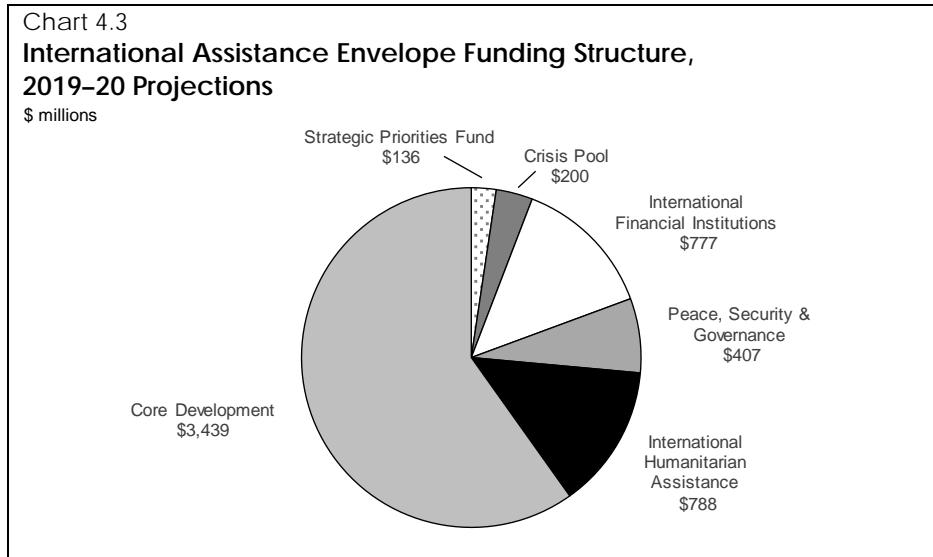
Increasing Canada’s International Assistance Envelope

Canada made important investments in Budget 2018 to strengthen the impact of Canada’s Feminist International Assistance Policy, and advance our international leadership—providing an additional \$2 billion in new International Assistance Envelope resources over five years, beginning in 2018–19.

Budget 2018 also established the new International Assistance Innovation and Sovereign Loans Programs, which will allow the Government of Canada to explore new ways to engage internationally and advance the Sustainable Development Goals. In addition, Canada will be hosting the Women Deliver conference in Vancouver in June 2019. This is the world’s largest conference on gender equality, health, rights and well-being of girls and women.

To continue Canada’s efforts as a global leader dedicated to making progress on advancing gender equality and the empowerment of women and girls around the world, and to reinforce our commitment to reduce global poverty, Budget 2019 announces an additional \$700 million in 2023–24 to the International Assistance Envelope. This commitment will ensure that there is clear and predictable funding in place to allow Canada to make strategic investments in international assistance and continue our leadership on the global stage.

The Government has made important legislative updates so that information on Canada's international assistance efforts will be presented in a single consolidated report. This report will help Canadians better understand Canada's international assistance efforts, and promote greater transparency and accountability when it comes to Canada's international assistance programs. This report will also give Canadians and the international community a clearer and more comprehensive update on our progress on implementing the Feminist International Assistance Policy. This report will reconcile the 2018–19 International Assistance Envelope Pool allocations presented in Budget 2018 with Canada's actual 2018–19 International Assistance Envelope expenditures.



Supporting Farmers in Supply Managed Sectors Following Ratification of New Trade Agreements

Canada has a unique place in the world—located next to the world's largest economy to the south, with close historic and economic ties to Europe to the east, and deep connections to the fast-growing Asia-Pacific nations to the west. With the successful conclusion of the Canada-United States-Mexico Agreement, as well as the Canada-European Union Comprehensive Economic and Trade Agreement (CETA) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), Canada is the only G7 country to have free trade agreements with all other G7 nations.

Canada now has comprehensive free trade agreements (FTAs) with countries representing two-thirds of the world's total GDP. The Government's ongoing commitment to free trade with economies around the world—including those in emerging markets—will help to further strengthen and grow the middle class and deliver long term economic growth that benefits all Canadians.

Following the recent ratifications of CETA and CPTPP, Budget 2019 proposes up to \$3.9 billion in support for supply-managed farmers:

- Support will be offered to sustain the incomes of eligible dairy, poultry, and egg farmers, by making available up to \$2.4 billion. Of this amount, \$250 million has already been provided to support dairy farmers as a result of CETA, therefore a net amount of up to \$2.15 billion will be available in coming years to deal with income losses associated with these agreements; and
- Assistance will also be offered to protect the value of investments made by farmers in supply-managed sectors, through a Quota Value Guarantee Program that will protect against reduction in quota value when the quota is sold. \$1.5 billion has been set aside for this demand-driven program.

Through 2019, the Government will continue to work in partnership with supply management stakeholders to address the impacts on processing, as well as potential future impacts of the Canada-United States-Mexico Agreement.

Renewing Canada's Middle East Strategy

In February 2016, Canada announced a three-year, whole-of-government strategy for the Middle East. This was undertaken in response to the ongoing crises in Iraq and Syria, and their impact on the region, in particular on Jordan and Lebanon. The Global Coalition has been effective in its mission to degrade and ultimately defeat Daesh in Iraq and Syria. Going forward, Canada will continue to work with the international community to set the conditions for longer-term security and stability, enable civilian-led stabilization programs and support governance efforts.

Middle East Strategy—Key Results Achieved

Through the current Middle East Strategy, Canada has made a real difference in Iraq, Syria, Jordan and Lebanon. With the support of Canada and other Coalition partners:

- Over 7.7 million people, and more than 99 per cent of the territory once held by Daesh in Iraq and Syria, have been freed from Daesh's control.
- More than 18.5 million square metres of land have been cleared of explosives, allowing displaced persons to safely return home.
- Security forces in Iraq, Jordan and Lebanon have received specialized advice, training and equipment to detect and address security threats in the region.

Canadian humanitarian and development assistance has enabled humanitarian partners to provide 8.5 million people with emergency food assistance, as well as training and financial support to 3,600 public schools in Jordan.

 Budget 2019 confirms the Government's plan to provide an additional \$1.39 billion over two years on a cash basis, starting in 2019–20, to renew the Middle East Strategy, with a greater focus on building stability, governance and long-term resilience. Of this amount, \$967.9 million will be provided from the fiscal framework and \$426 million would be sourced from Global Affairs Canada's existing International Assistance Envelope resources. The overall funding would be allocated as follows:

- \$926 million to support humanitarian, development, stabilization and security, and diplomatic activities.
- \$442 million to renew Operation IMPACT, Canada's military contribution.
- \$25.9 million to support intelligence activities.

Reinforcing Canada's Support for Ukraine

Canada is a steadfast partner of Ukraine, and among the strongest international supporters of the country's efforts to defend itself, and implement democratic and economic reforms.

Since 2015, the Canadian Armed Forces, with the support of Global Affairs Canada, have been providing military training and capacity building to the Ukrainian Armed Forces through Operation UNIFIER, supporting Ukraine in its efforts to maintain its sovereignty and security.

 The Government remains fully committed to providing this assistance to Ukraine. To that end, Budget 2019 confirms the Government's plan to invest up to \$105.6 million over three years, starting in 2019–20, to renew Operation UNIFIER. This includes \$99.6 million over three years in incremental funding for Canada's military contribution, and up to \$6 million to support broader efforts on defence and security sector reforms in Ukraine allocated by Global Affairs Canada from existing International Assistance Envelope resources.

These efforts complement Canada's participation in North Atlantic Treaty Organization assurance and deterrence measures in Central and Eastern Europe through Operation REASSURANCE, which was extended in July 2018 at a cost of \$514 million over four years.

More Affordable International Remittances

Every day, Canadians rely on international remittances to send money abroad to relatives and friends.

Canadians who transfer money abroad want to be able to do so at a low cost. While the cost of remittances in Canada has fallen over the last decade, the Government is committed to further lowering the costs Canadians incur when sending money abroad—to an average of 5 per cent by 2022 and 3 per cent by 2030, consistent with Canada's Group of Twenty (G20) commitment and the Sustainable Development Goals.

Statistics Canada is undertaking a study on the Canadian remittance market, including its characteristics and costs. Results from the study will be available in the spring of 2019 and will inform future policy directions.

In addition, to support innovation and competition in the remittance market, the Government will hold targeted consultations to explore new ways to facilitate payments system access arrangements for remittance service providers—such as sandboxes or other mechanisms—in the context of implementation of the proposed retail payments oversight framework.

Part 6: Better Government

Canadians work hard every day to support their families and their communities. They deserve a Government that does the same to continuously and responsibly improve the ways it administers and operates programs, and delivers services to Canadians.

This means giving Canadians better access to government services and information—both online and off—and ensuring that the services Canadians rely on are secure, reliable and easy to use.

Investing in Service Canada

Employment and Social Development Canada (ESDC), through Service Canada, is responsible for the delivery of many of the income security programs that Canadians rely on to make ends meet—including Old Age Security, the Guaranteed Income Supplement, the Canada Pension Plan and Employment Insurance.

As Canada's population continues to grow and to age, the demand for timely benefits and services will continue to increase. This is true for both Service Canada's call centres—which respond to more than 10 million calls a year from Canadians—and for the digital service delivery systems that process data and benefit claims. Regular maintenance and improvement of these systems are essential if Canadians are to receive timely benefits and quality service in the years to come.

To support Service Canada in providing Canadians with the benefits and information they are entitled to in a timely manner, Budget 2019 proposes to provide \$305.3 million over five years to Employment and Social Development Canada to continue improving and modernizing service delivery systems. These investments will allow ESDC to:

- Make improvements to the Old Age Security and Canada Pension Plan delivery platforms.
- Hire additional staff at Service Canada to assess and process Old Age Security benefit claims.
- Migrate Service Canada's call centers to more modern phone and information technology platforms, which will help to ensure faster and better quality service to Canadians.

Improving Client Services at the Canada Revenue Agency

Canadians deserve to receive prompt, high-quality service in their interactions with Government, including when dealing with the Canada Revenue Agency (CRA). In recent years, the Government—responding to Canadians' concerns about unacceptable delays and other service challenges—has taken steps to ensure that CRA services are fairer, more helpful, and easier to use. This includes a significant investment in Budget 2018, in which the Government provided \$206 million over five years to improve CRA services, and committed to undertake a review of the CRA service model to ensure that Canadians receive the help they need and the good service they deserve.

Review of Canada Revenue Agency Service Model

In 2018, the Government completed a departmental review of the Canada Revenue Agency's (CRA's) service model. This included an in-depth look at whether CRA's compliance, collections, and client services activities are being assigned in the most efficient manner, and investigated whether progress is being made in delivering high-quality services that meet the needs and expectations of Canadians.

As a result of this review, CRA resources will be reallocated internally to improve service delivery for Canadians. This includes:

- *Improved digital services*—Canadians will be notified promptly as progress is made on their file, and will be able to view this progress online.
- *Timely resolution to taxpayers' objections*—Disputes with the CRA will be resolved in a more timely manner, allowing the CRA to more consistently meet its published service standards.
- *Additional liaison officers*—Right now, experienced auditors currently visit about 9,500 new unincorporated businesses each year to guide them through the tax assessment prior to filing their tax returns. CRA will broaden the reach and scope of this service, helping an additional 1,700 more businesses per year, including those that are incorporated.

These changes accompany other important steps recently taken by CRA to support the Government's commitment to service excellence. This includes appointing a Chief Service Officer (CSO) and establishing an External Advisory Panel on Service, to ensure that progress continues to be made in delivering better service to Canadians.

 To further support the Canada Revenue Agency's ongoing service improvement efforts, Budget 2019 proposes to invest an additional \$50 million over five years, starting in 2019–20, in two key initiatives:

- Every year, at the request of individual tax payers, the CRA processes more than two million adjustments to T1 returns post-filing. Though the volume of changes makes some delay inevitable, Canadians are often frustrated by the time it takes to process these adjustments; in fact, this was a key concern highlighted by the Taxpayers' Ombudsman in her 2018 report. By investing \$34 million over five years to hire additional staff, it will be possible to make these adjustments more quickly, reducing frustration for taxpayers and ensuring that vulnerable Canadians do not encounter unnecessary delays in calculating the credits and benefits to which they are entitled.
- In Budget 2016, the Government invested in a pilot program to provide a dedicated telephone support line for tax service providers, giving them faster and more reliable access to experienced CRA officers. The Government proposes to invest \$16 million over five years to make this well-received program permanent, improving service for the millions of Canadians who work with tax service providers each year.

Improving Immigration Client Service

Canada's ability to offer high-quality client service for those seeking to immigrate to Canada is another important part of our world-class immigration system. As global demand to visit, study or work in, or immigrate permanently to Canada grows, so must the Government's ability to provide services that are accessible, timely and responsive to the needs of existing and potential newcomers to Canada.

 To help improve immigration client services, Budget 2019 proposes to provide Immigration, Refugees and Citizenship Canada (IRCC) with an additional \$42.9 million over two years, beginning in 2019–20. This investment would increase the number of IRCC call centre agents so that enquiries from visitors, new Canadians, and others can be responded to more quickly, with a focus on the business lines with the longest delays.

Helping Travellers Visit Canada

Global demand to travel to Canada to visit, work or study is growing. Each year, Canada welcomes millions of tourists, temporary foreign workers and international students who inject billions into our economy. Canada benefits from the contribution of visitors and international students who spend money in our communities, bring fresh perspectives to our institutions, and create linkages to friends and family around the world. Temporary foreign workers are essential in meeting broader short-term labour market needs and ensure that Canada remains responsive to the needs of industries that rely on those workers during peak seasons.

 To ensure immigration and border officials are well-equipped to facilitate the efficient entry of visitors, while protecting the health and security of Canadians, Budget 2019 proposes to invest \$78.6 million over two years, beginning in 2019–20. This investment will ensure that resources are in place to process global demand for Canadian visitor visas, work and study permits.

Resolving Income Security Program Disputes More Quickly and Easily

The Employment Insurance (EI), the Canada Pension Plan (CPP) and the Old Age Security (OAS) programs provide important income support to millions of Canadians every year. At times, people may disagree with decisions made regarding their claims or benefits. When that occurs, Canadians deserve a recourse process that delivers appropriate decisions in a timely way.

To make the recourse process for EI, CPP, and OAS easier to navigate and more responsive to the needs of Canadians, Budget 2019 proposes to invest \$253.8 million over five years, starting in 2019–20, with \$56.7 million per year ongoing. This investment will fund a series of proposed changes that build on the recommendations of a 2017 independent review of the Social Security Tribunal of Canada, and on the views expressed by Canadians through subsequent consultations, and will ensure that decision timelines are shortened at every stage of the process.

Ensuring Proper Payment for Public Servants

Canada's public servants work hard in service of all Canadians and deserve to be paid properly and on time for their important work. The Phoenix pay system for federal public servants was originally intended to save money, however, since its launch it has resulted in unacceptable pay inaccuracies—resulting in hardships for public servants across the country. Serious issues and challenges with the pay system continue, and too many of Canada's public servants are not being properly paid, or are waiting for their pay issues to be resolved.

To continue progress on stabilizing the current pay system, Budget 2019 provides an additional \$21.7 million in 2018–19 to address urgent pay administration pressures (partially sourced from existing departmental funds), and proposes to invest an additional \$523.3 million over five years, starting in 2019–20, to ensure that adequate resources are dedicated to addressing payroll errors. This investment will also support system improvements, to reduce the likelihood of errors occurring in the first place.

To ensure that the Canada Revenue Agency is able to quickly and accurately process income tax reassessments for federal government employees that are required due to Phoenix pay issues, and to support related telephone enquiries, Budget 2019 proposes to provide the Agency with an additional \$9.2 million in 2019–20.

While the Phoenix pay system has been underpaying some public servants, it has also been paying others too much. Under current legislation, any employee who received an overpayment in a previous year is required to pay back the gross amount of this overpayment to their employer. The employee must recover from the Canada Revenue Agency the excess income tax, Canada Pension Plan contributions and Employment Insurance premiums that were deducted by their employer when the overpayment was made. On January 15, 2019, the Government proposed legislative amendments that would allow overpaid employees working in both the public and private sectors to repay their employer only the net amount they received after these deductions. The proposed amendments are intended to alleviate the burden faced by employees who were required to make repayments larger than the amounts they received from their employer, creating uncertainty and potential financial hardship.

Moving Toward the Next Generation Pay System for the Federal Public Service

In Budget 2018, the Government announced its intention to move away from the Phoenix pay system toward one better aligned to the complexity of the Government's pay structure and to the future needs of Canada's world-class public service.

Working cooperatively with experts, federal public sector unions, employees, pay specialists and technology providers, the Treasury Board Secretariat (TBS) launched a process to review lessons learned, and identify options for a next-generation pay solution.

As part of this process, pay system suppliers were invited to demonstrate possible solutions, which were directly tested with users. Based on feedback from users and participating stakeholders, TBS has been able to identify options with the potential to successfully replace the Phoenix pay system. As a next step, the Government will work with suppliers and stakeholders to develop the best options, including pilot projects that will allow for further testing with select departments and agencies, while assessing the ability of suppliers to deliver.

Finally, TBS will continue to engage public servants throughout this process, to ensure that their feedback is fully reflected in any future solution.

Part 7: A Fair Tax System for All Canadians

The Government is committed to building an economy that works for everyone. To do that, we need a tax system that is fair, and we need all Canadians to pay their fair share.

The taxes Canadians pay help to build the infrastructure that keeps people moving and our economy growing. They help support the schools that teach us when we're young and pay for the medical care that keeps us healthy as we age. They also help to create good, well-paying jobs—and provide a solid social safety net to help people when they lose their jobs.

It's important to all Canadians that the Government be able to deliver the programs and services Canadians rely on, while keeping taxes low for the middle class. In each of its budgets, the Government has strengthened the Canada Revenue Agency's ability to crack down on tax evasion and combat tax avoidance, and proposed measures to close tax loopholes—often used by the wealthiest Canadians—that result in unfair tax advantages for some at the expense of others.

Budget 2019 builds on this approach, with additional measures aimed at ensuring Canada's tax system is efficient, effective and fair.

Improving Tax Compliance

The taxes we pay support government services that benefit all Canadians—from health care and education to affordable housing and public safety. By cracking down on tax evasion and aggressive tax avoidance, the Government is ensuring that it has the money needed to deliver the programs that Canadians depend on.

Significant investments have been made in recent years to strengthen the Canada Revenue Agency's (CRA's) ability to unravel complex tax schemes, increase collaboration with international partners, and ultimately bring offenders to justice.

These investments have already yielded positive results.

Starting in 2015, the CRA expanded the number of audit teams that focus on high net worth individuals and their associated corporate structures. As a result, there are now more than 1,100 offshore audits underway, resulting in more than 50 criminal investigations with links to offshore transactions.

To further combat tax evasion and aggressive tax avoidance, Budget 2019 proposes to invest an additional \$150.8 million over five years, starting in 2019–20. This investment will allow the CRA to fund new initiatives and extend existing programs, including:

- Hiring additional auditors, conducting outreach and building technical expertise to target non-compliance associated with cryptocurrency transactions and the digital economy.
- Creating a new data quality examination team to ensure proper withholding, remitting and reporting of income earned by non-residents.
- Extending programs aimed at combatting offshore non-compliance.

Budget 2019 accounts for the expected revenue impact from these targeted compliance initiatives, of \$369.0 million over five years. These amounts do not reflect the gain that will be realized by provinces and territories, whose tax revenues will also increase as a result of these initiatives.

 To help the CRA stay ahead of non-compliance schemes driven by the use of new, advanced technologies, Budget 2019 also proposes to invest \$65.8 million over five years to improve the CRA's information technology systems, including replacing legacy systems, so that the infrastructure used to fight tax evasion and aggressive tax avoidance continues to evolve.

Strengthening Beneficial Ownership Transparency

In December 2017 the Minister of Finance and his provincial and territorial counterparts jointly committed to improving corporate transparency so that Canadian authorities can more clearly know who owns which corporations in Canada. The Ministers also agreed to work together to better harmonize corporate ownership record requirements between jurisdictions.

To that end, the *Canada Business Corporations Act* was amended to require federally incorporated corporations to maintain beneficial ownership information. In Budget 2019, the Government proposes further amendments to the Act to make the beneficial ownership information maintained by federally incorporated corporations more readily available to tax authorities and law enforcement.

What Is Beneficial Ownership?

Beneficial ownership refers to the identity of individuals who own, control or profit from a corporation or trust.

In addition, Budget 2018 proposed the introduction of enhanced tax reporting requirements for trusts, effective for the 2021 and later taxation years, in order to improve the collection of beneficial ownership information for income tax purposes.

The Government will continue to collaborate with the provinces and territories to assess how best to improve corporate ownership transparency.

Strengthening Canada's Anti-Money Laundering and Anti-Terrorist Financing (AML/ATF) Regime

Money laundering, terrorist financing and tax evasion are a threat to Canadians' safety, security and quality of life, and harm the integrity and stability of the financial sector and the broader economy. Canada takes a comprehensive and coordinated approach to combatting money laundering, terrorist financing and organized crime. However, those seeking to launder proceeds of crime—or raise, transfer and use funds for the purposes of terrorism—are finding new ways to exploit the complex global financial system and evade the considerable protections already in place in Canada. There are growing concerns that illicit funds are finding their way into the Canadian economy through channels that millions of Canadians rely on, including corporations, real estate and trade.

The recent report by the House of Commons Standing Committee on Finance entitled *Confronting Money Laundering and Terrorist Financing: Moving Canada Forward* provides a roadmap to respond to current and future threats. Budget 2019 proposes an integrated plan to modernize Canada's AML/ATF framework and strengthen data resources, financial intelligence and information sharing to identify and meet evolving threats—while continuing to protect the privacy rights of Canadians and manage the regulatory burden on the private sector.

A first phase of concerted action will give police the resources they need to tackle financial crime and address gaps in information sharing. It will also dedicate new resources to identify and address complex money laundering operations in Canada.

The Government proposes to:

- Strengthen federal policing operational and investigative capacity by providing up to \$68.9 million over five years, beginning in 2019–20, and \$20.0 million per year ongoing, to the Royal Canadian Mounted Police.
- Create the Anti-Money Laundering Action, Coordination and Enforcement (ACE) Team, which will bring together dedicated experts from across intelligence and law enforcement agencies to strengthen inter-agency coordination and cooperation and identify and address significant money laundering and financial crime threats. Budget 2019 proposes to invest \$24 million over five years, beginning in 2019–20, for Public Safety Canada to implement the ACE Team as a pilot initiative.
- Create a multi-disciplinary Trade Fraud and Trade-Based Money Laundering Centre of Expertise, which will complement the efforts of the ACE Team. This initiative will strengthen capacity at the Canada Border Services Agency and the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) to target these growing threats. Budget 2019 proposes to invest \$28.6 million over four years, beginning in 2020–21, with \$10.5 million per year ongoing to create a multi-disciplinary Trade Fraud and Trade-Based Money Laundering Centre of Expertise.
- Strengthen operational capacity at FINTRAC, Canada's AML/ATF regulator and financial intelligence unit, to:
 - Improve oversight of modern financial practices related to virtual currencies, foreign money service businesses, pre-paid products and customer identification.
 - Expand public-private partnership projects to improve the overall efficiency and effectiveness of the AML/ATF Regime.
 - Increase outreach and examinations in the real estate and casino sectors with a focus on the province of British Columbia.
- Budget 2019 proposes to invest \$16.9 million over five years in FINTRAC, beginning in 2019–20, and \$1.9 million per year ongoing to advance these objectives.
- Budget 2019 also proposes complementary legislative measures to strengthen Canada's legal framework and support operational capacity. With these measures, Canada will adopt international best practices, provide new tools for investigators and prosecutors, and support regulatory compliance by the private sector.

Budget 2019 proposes to make legislative amendments to:

- Add an alternative requirement of recklessness to the offence of money laundering in the *Criminal Code*. This would criminalize the activity of moving money on behalf of another person or organization while being aware that there is a risk that this activity could be money laundering and continuing with that activity in spite of the risk. It would also provide law enforcement with an important, practical tool in the fight against professional money launderers in Canada.

- Add Revenu Québec and the Competition Bureau as disclosure recipients of FINTRAC financial intelligence by amending the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (PCMLTFA), and provide \$2.4 million over five years, beginning in 2019–20, and \$0.5 million per year ongoing for FINTRAC to develop additional expertise and capacity.
- Modify the timing and the discretion of the Director of FINTRAC to make public certain information related to an administrative monetary penalty, by amending the PCMLTFA.
- Exclude the identity of a reporting entity, the nature of the violations and the amount of the penalty imposed from the scope of any confidentiality order that a court may issue in relation of the administrative monetary penalty, by amending the PCMLTFA.
- Broaden access to specialized asset management services at Public Services and Procurement Canada by amending the *Seized Property Management Act*.
- Make technical amendments to the PCMLTFA to expand the definition of designated information, clarify terminology and improve readability.

Collecteur Project: A Vast Money Laundering Network Dismantled

Dismantling complex money laundering networks that fuel criminal activity requires significant investment of time and resources—as well as cooperation across domestic and international law enforcement agencies. The Collecteur Project, a major investigation led by the Royal Canadian Mounted Police, in cooperation with the Canada Revenue Agency, led to the arrests of 17 individuals associated with a vast money laundering network in mid-February 2019. The network moved money collected from criminal groups in Montréal, through various individuals and currency exchange offices in Toronto, using an informal value transfer system with connections in Lebanon, the United Arab Emirates, Iran, the United States and China. The funds were then returned to drug-exporting countries such as Colombia and Mexico. To date, the estimated value of assets seized and restrained through the investigation totals more than \$32.8 million, including drugs, cash, properties, and money in bank accounts.

Combatting Aggressive International Tax Avoidance

Update on the Base Erosion and Profit Shifting Project

The Government is committed to safeguarding Canada's tax system and to that end continues to be an active participant in the Organisation for Economic Co-operation and Development/Group of Twenty (OECD/G20) project known as the Base Erosion and Profit Shifting (BEPS) initiative. BEPS refers to international planning used by some corporations and wealthy individuals to inappropriately avoid paying taxes by shifting profits earned in Canada to other offshore jurisdictions. The Government continues to work with its international partners to improve and update the international tax system, and to ensure a coherent and consistent response to fight cross-border tax avoidance.

Ongoing Base Erosion and Profit Shifting Project

Country-by-Country Reporting

Large multinational enterprises in Canada and elsewhere are now required to file country-by-country reports that include information on their global allocation of income and taxes, as well as the nature of their global business activities. These reports are exchanged between the Canada Revenue Agency (CRA) and other tax authorities with whom Canada has the required exchange agreements in place.

Country-by-country reports are an important tool in combatting Base Erosion and Profit Shifting (BEPS) by providing the CRA and other tax authorities with new information to better assess transfer pricing risks (transfer pricing refers to the prices and other conditions that apply to transactions between members of multinational enterprises; while these are supposed to reflect what arm's length parties would do, there is the risk that multinational enterprises will use transfer pricing to shift profits from Canada to low-tax jurisdictions). The first exchanges of these reports took place in 2018. Canada is now participating in an OECD review of the standard for these reports to ensure that they provide tax administrations with better information that allows for proper assessment of transfer pricing and other BEPS risks. This review is scheduled to be completed in 2020.

Multilateral Instrument

The *Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting* (known as the Multilateral Instrument or MLI) is an important tool in facilitating a number of the measures developed under the OECD/G20 BEPS project, and in combatting international tax avoidance. The MLI is intended to allow participating jurisdictions to modify their existing tax treaties without having to individually renegotiate those treaties. Canada, along with another 86 jurisdictions to date, is a signatory to the MLI. The Government is taking the necessary steps to enact the MLI into Canadian law and to ratify the MLI as needed to bring it into force.

Strengthening Canada's International Tax Rules

The Government is also taking action to protect the integrity and improve the fairness of Canada's international tax system. This system includes rules to prevent taxpayers from avoiding Canadian income tax by shifting property income into foreign resident corporations. It also includes rules aimed at ensuring that non-residents pay their fair share of tax on income derived from Canadian sources.

To further strengthen Canada's international tax rules, the Government proposes to:

- Extend the foreign affiliate dumping rules in the *Income Tax Act* to prevent a corporation resident in Canada that is controlled by a non-resident individual or trust from reducing its tax payable by investing in a foreign affiliate.
- Introduce an ordering rule to ensure that the transfer pricing rules (i.e., rules that apply to certain international transactions) in the *Income Tax Act* apply before other provisions of the Act.
- Ensure that the term "transaction" has the same meaning in both the transfer pricing rules and the assessment rules in the *Income Tax Act*.
- Prevent non-resident taxpayers from avoiding Canadian dividend withholding tax on compensation payments made under cross-border share lending arrangements with respect to Canadian shares.

Employee Stock Options

In Budget 2016, the Government committed to undertake a wide-ranging review of federal tax expenditures. Individuals and businesses had expressed concerns about the efficiency and fairness of Canada's tax system, and how some tax expenditures unfairly benefit the wealthiest Canadians rather than the middle class and those people working hard to join it.

Since Budget 2016, the Government has taken many actions to improve the fairness of the tax system including eliminating the ability to artificially multiply the small business deduction, limiting the ability to use businesses to shelter investment income and cracking down on tax evasion and aggressive tax avoidance. In total, the Government's actions are expected to recoup over \$3 billion per year in revenues (see Annex 5) which have been reinvested in tax reductions and benefits going to middle class families, seniors and Canadians who need it most.

Budget 2019 announces the Government's intent to limit the use of the current employee stock option tax regime and move toward aligning the tax treatment with the United States for employees of large, long-established, mature firms.

Employee stock options, which provide employees with the right to acquire shares of their employer at a designated price, are an alternative compensation method used by businesses to increase employee engagement, and promote entrepreneurship and growth. Many smaller, growing companies, such as start-ups, do not have significant profits and may have challenges with cash flow, limiting their ability to provide adequate salaries to hire talented employees. Employee stock options can help such companies attract and retain talented employees by allowing them to provide a form of remuneration linked to the future success of the company.

To support this objective, the tax rules provide employee stock options with preferential personal income tax treatment in the form of a stock option deduction which effectively results in the benefit being taxed at a rate equal to one half of the normal rate of personal taxation, the same rate as capital gains. The tax benefits of the employee stock option deduction, however, disproportionately accrue to a very small number of high-income individuals.

Table 4.1

Distribution of Employee Stock Option Deduction by Income (2017)

Individual's total income ¹ (\$)	Stock option deduction claimed			
	Number of individuals	Average amount (\$)	Aggregate amount (\$ millions)	Per cent of aggregate amount
Under 200,000	20,140	6,000	120	6
200,000 to 1,000,000	14,160	44,000	630	30
Over 1,000,000	2,330	577,000	1,340	64
Overall	36,630	57,000	2,090	100

¹ Including stock option benefits.

Note: Numbers may not add due to rounding.

Source: Tax filer data for the 2017 taxation year.

When examining the evidence, it is clear that the employee stock option deduction is highly regressive. In 2017, 2,330 individuals, each with a total annual income of over \$1 million, claimed over \$1.3 billion of employee stock option deductions. In total, these 2,330 individuals, representing 6 per cent of stock option deduction claimants, accounted for almost two-thirds of the entire cost of the deduction to taxpayers.

The public policy rationale for preferential tax treatment of employee stock options is to support younger and growing Canadian businesses. The Government does not believe that employee stock options should be used as a tax-preferred method of compensation for executives of large, mature companies.

To address this inequity, the Government intends to move forward with changes to limit the benefit of the employee stock option deduction for high-income individuals employed at large, long-established, mature firms. In its approach, the Government will be guided by two key objectives:

1. to make the employee stock option tax regime fairer and more equitable for Canadians, and
2. to ensure that start-ups and emerging Canadian businesses that are creating jobs can continue to grow and expand.

Specifically, the Government will move toward aligning Canada's employee stock option tax treatment with that of the United States by applying a \$200,000 annual cap on employee stock option grants (based on the fair market value of the underlying shares) that may receive tax-preferred treatment for employees of large, long-established, mature firms. Under this approach, the vast majority of employees of these firms that may receive employee stock option benefits would be unaffected.

For start-ups and rapidly growing Canadian businesses, employee stock option benefits would remain uncapped. In this manner, start-ups and emerging Canadian businesses will be protected and maintain the ability to use employee stock options as an effective tool to attract and reward employees and accelerate their growth.

Further details of this measure will be released before the summer of 2019.

Any changes would apply on a go-forward basis only and would not apply to employee stock options granted prior to the announcement of legislative proposals to implement any new regime.

How a new regime for taxing employee stock options could affect employees who are granted employee stock options

Henry is an executive of a large, long-established, mature company that has an employee stock option plan. Henry's employer grants him stock options to acquire 100,000 shares at a price of \$50 per share (the fair market value of the shares on the date the options are granted), with all of the options vesting in a future year. Since the fair market value of the underlying shares at the time of grant ($\$50 \times 100,000 = \5 million) exceeds the \$200,000 limit, the amount of stock options that can receive preferential tax treatment will be capped. In particular, the stock option benefits associated with 4,000 ($\$200,000 \div \$50 = 4,000$) of the options can continue to receive preferential personal income tax treatment, while the stock option benefits associated with the remaining 96,000 options will be included in Henry's income and fully taxed at ordinary rates and deductible for corporate income tax purposes.

For instance, if the price of the shares has increased to \$70 at the time that Henry exercises the options, $\$1,920,000$ ($\$70 \times 96,000 - \$50 \times 96,000$) of the employee stock option benefit will be included in Henry's income and fully taxed at ordinary rates, while only $\$80,000$ ($\$70 \times 4,000 - \$50 \times 4,000$) of the benefit will receive preferential personal income tax treatment (with no deduction to the employer).

This treatment is very different from the tax treatment Henry could receive under current tax rules, under which he would generally be entitled to a \$1,000,000 employee stock option deduction on the \$2,000,000 employee stock option benefit.

Clara is a senior manager at the same large, long-established, mature company, which grants her employee stock options to acquire 3,000 shares at a price of \$50 per share (the fair market value of the shares on the date the options are granted). Since the fair market value of the underlying shares at the time of grant ($\$50 \times 3,000 = \$150,000$) is within the \$200,000 limit, all of the stock option benefits associated with these options will continue to receive preferential personal income tax treatment.

For instance, if the price of the shares has increased to \$70 at the time that Clara exercises the options, her stock option benefit of $\$60,000$ ($\$70 \times 3,000 - \$50 \times 3,000$) will continue to receive preferential personal income tax treatment.

Amanda is an employee of a start-up company that has an employee stock option plan. Amanda's employer grants her stock options to acquire 100,000 shares at a price of \$1 per share. Since Amanda received these options from a start-up, all of the stock option benefits associated with the options will continue to receive preferential personal income tax treatment.

For instance, if the price of the shares has increased to \$6 at the time that Amanda exercises the options, her stock option benefit of $\$500,000$ ($\$6 \times 100,000 - \$1 \times 100,000$) will continue to receive preferential personal income tax treatment.

Adjusting the Rules for Cannabis Taxation

New classes of cannabis products, namely edible cannabis, cannabis extracts, and cannabis topicals, will be permitted for legal sale under the *Cannabis Act* later this year. The Government is proposing that the excise duty framework for cannabis products be amended to more effectively apply the excise duty on these new classes of cannabis products, as well as to cannabis oils, which are already legally available for sale. This proposed change will result in the framework better reflecting recommendations from the expert Task Force on Cannabis Legalization and Regulation and feedback received from the cannabis industry.

For most products, namely fresh and dried cannabis, and seeds and seedlings, there will be no changes to the current excise duty framework. However, for cannabis edibles, cannabis extracts (which will include cannabis oils), and cannabis topicals, excise duties will be imposed on the quantity of tetrahydrocannabinol (THC) contained in a final product.

The proposed THC-based rate will help simplify the excise duty calculation for specific cannabis products and ease compliance issues that producers have encountered with respect to cannabis oils. Certain low-THC products (e.g., cannabis oils) will also generally be subject to lower excise duties than before, providing further tax relief for cannabis products typically used by individuals for medical purposes.

The proposed measure will come into effect on May 1, 2019, and will not affect the federally administered co-ordinated revenue-sharing agreements reached with most provincial and territorial governments, and is not expected to materially change the overall projected excise duty revenues presented in Budget 2018.

Improving Access to the Canada Workers Benefit Throughout the Year

Budget 2018 introduced the new Canada Workers Benefit (CWB), a refundable tax credit that helps supplement the earnings of low-income workers, by letting them take home more money while they work. The CWB features a payment option through which beneficiaries are able to receive up to four advance payments of the benefit throughout a year, totalling up to half of their estimated CWB entitlement for the year. Currently, this provision is little used.

To give low-income workers improved access to support throughout the year, Budget 2019 proposes to provide the Canada Revenue Agency (CRA) with \$4 million over two years, starting in 2019–20, to conduct targeted outreach. This outreach would increase awareness of the CWB, including the advance payment provision.

Budget 2019 further proposes that this funding be used to allow low-income workers to apply online for advance payment of the Canada Workers Benefit through the CRA's My Account portal. The Government intends to determine what investments are required to support the delivery of the Benefit, while reducing the paper burden for eligible workers, and will continue to look for ways to improve the Canada Workers Benefit and support more Canadians working hard to join the middle class.

Intergenerational Business Transfers

The Government understands the importance Canadian farmers, fishers and other business owners place on being able to pass their businesses on to their children. The Government will continue its outreach to farmers, fishers and other business owners throughout 2019 to develop new proposals to better accommodate intergenerational transfers of businesses while protecting the integrity and fairness of the tax system.

Small Business Deduction—Farmers and Fishers

Currently, certain relief is given to Canadian-controlled private corporations carrying on a farming or fishing business from the tax rules designed to prevent the multiplication of the small business deduction. Budget 2019 proposes to extend that relief to sales of farming products and fishing catches to any arm's length corporation. This measure applies to taxation years that begin after March 21, 2016.

Closing Tax Loopholes

In each of its previous three budgets, the Government has taken action to ensure that Canada's tax rules function as intended and that they do not result in unfair tax advantages for some at the expense of others. Budget 2019 continues this approach by proposing measures to close tax loopholes that can result in some people paying less than their fair share. Ongoing legislative adjustments help ensure the integrity of Canada's tax system and give Canadians greater confidence that the system is fair for everyone.

To make Canada's tax system more fair, Budget 2019 proposes to:

- Prevent the use by mutual fund trusts of a method of allocating capital gains or income to their redeeming unitholders where the use of that method inappropriately defers tax or converts fully taxable ordinary income into capital gains taxed at a lower rate.
- Improve existing rules meant to prevent taxpayers from using derivative transactions to convert fully taxable ordinary income into capital gains taxed at a lower rate.
- Stop the use of individual pension plans to avoid the prescribed transfer limits. These limits are meant to prevent inappropriate tax deferrals when individuals transfer assets out of certain types of pension plans.

Chapter 4 - Delivering Real Change

millions of dollars

	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	2023- 2024	Total
Part 1. Health and Well-Being							
Introducing a National Dementia Strategy	0	3	12	12	12	12	50
Creating a Pan-Canadian Database for Organ Donation and Transplantation	0	1	6	10	10	10	37
Expanding Health Related Tax Relief	0	0	0	0	0	0	0
Enhancing the Federal Response to the Opioid Crisis in Canada	0	7	11	6	4	2	31
Supporting a Pan-Canadian Suicide Prevention Service	0	5	5	5	5	5	25
Supporting Community-Based Housing for People with Complex Health and Social Needs in PEI	0	10	10	10	10	10	51
<i>Less: Funds Sourced from Existing Departmental Resources</i>	0	-10	-10	-10	-10	-10	-51
Supporting a Safe and Non-Discriminatory Approach to Plasma Donation	0	1	2	0	0	0	2
Supporting Employment for Persons with Intellectual Disabilities and Autism Spectrum Disorders	0	4	4	4	0	0	12
More Accessible Federal Government Workplaces	0	2	3	4	3	3	14
Inclusion of Canadians with Visual Impairments and Other Print Disabilities	0	9	5	6	4	2	27
<i>Less: Funds Sourced from Existing Departmental Resources</i>	0	-3	0	0	0	0	-3
Improvements to the Registered Disability Savings Plan	0	3	17	28	30	31	109
Introducing a Food Policy for Canada	0	36	43	53	54	54	239
<i>Less: Funds existing in the Fiscal Framework</i>	0	-10	-15	-25	-25	-25	-100
<i>Less: Funds Sourced from Existing Departmental Resources</i>	0	-1	-1	-1	-1	-1	-6
Addressing the Challenges of African Swine Fever	0	5	8	6	6	6	31
The Social Finance Fund	0	25	25	0	0	0	50
<i>Less: Funds from 2018 Fall Statement</i>	0	-15	-35	0	0	0	-50
Part 1. Health and Well-Being Total	0	71	89	108	101	98	467
Part 2. Support for Diversity, Culture and the Arts							
Expanding Support for Artists and Cultural Events	0	31	31	0	0	0	61
Advancing Gender Equality	0	10	10	20	40	80	162
Expanding the Work of the LGBTQ2+ Secretariat	0	10	11	0	0	0	21
Introducing a New Anti-Racism Strategy	0	17	15	13	0	0	45
Supporting Black Canadian Communities	0	5	5	5	5	5	25
Supporting Canadian Journalism							
Tax Credit for Journalism Organizations	0	0	75	95	95	95	360
Tax Credit for Digital News Subscriptions	0	5	26	31	36	41	138

Chapter 4 - Delivering Real Change

millions of dollars

	2018– 2019	2019– 2020	2020– 2021	2021– 2022	2022– 2023	2023– 2024	Total
Access to Charitable Tax Incentives for Not-for-Profit Journalism	0	6	25	32	22	11	96
Less: Funds from Previous Budgets or Fall Statements	0	-45	-105	-130	-150	-165	-595
Supporting Donations of Cultural Property	0	0	0	0	0	0	0
Ensuring a Safe and Healthy Sport System	0	6	6	6	6	6	30
Part 2. Support for Diversity, Culture and the Arts Total	0	45	98	72	54	73	343
Part 3. Support for Canada's Veterans and Their Families							
Supporting Veterans as They Transition to Post-Service Life	0	33	28	25	25	24	136
Supporting Research on Military and Veteran Health	0	1	7	7	7	7	30
Supporting Veteran's Families	0	30	30	30	30	30	150
Commemorating Canada's Veterans	0	1	1	1	0	0	3
Juno Beach Centre	0	1	1	1	1	1	3
Recognizing Métis Veterans	0	30	0	0	0	0	30
Part 3. Support for Canada's Veterans and Their Families Total	0	95	66	64	63	62	351
Part 4. Public Safety and Justice							
Protecting Canada's Critical Infrastructure from Cyber Threats	0	22	32	39	26	26	145
Less: Funds from Previous Budgets or Fall Statements	0	-3	-11	-7	-6	-6	-34
Less: Funds Sourced from Existing Departmental Resources	0	-5	-5	-5	-5	-5	-23
Growing Canada's Advantage in Cyber Security	0	0	20	20	20	20	80
Protecting Democracy	0	8	10	11	12	12	52
Less: Funds Sourced from Existing Departmental Resources	0	-1	-1	-1	-1	0	-4
Protecting Canada's National Security	0	13	14	14	14	14	70
Less: Funds Sourced from Existing Departmental Resources	0	-1	-1	-1	-1	-1	-3
Enhancing Accountability and Oversight of the CBSA	0	1	3	6	7	7	24
Strengthening the Royal Canadian Mounted Police	0	96	112	100	100	100	509
Enhancing the Integrity of Canada's Borders and Asylum System	0	362	460	229	65	60	1,176
Protecting People from Unscrupulous Immigration Consultants	0	11	11	10	10	10	52
Ensuring Better Disaster Management Preparation and Response	0	18	33	36	35	34	156
Improving Emergency Medical Response in Western Canada	65	0	0	0	0	0	65
Protecting Children from Sexual Exploitation Online	0	4	9	9	0	0	22
Giving Canadians Better Access to Public Legal Education and Information	0	2	2	2	2	2	8
Supporting Access to Family Justice in the Official Language of One's Choice	0	0	4	4	4	4	17

Chapter 4 - Delivering Real Change

millions of dollars

	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	2023- 2024	Total
Protecting Community Gathering Places from Hate Motivated Crimes	0	2	2	2	2	2	10
Part 4. Public Safety and Justice Total	65	529	695	468	285	281	2,323
Part 5. Canada's International Engagement							
Increasing Canada's International Assistance Envelope	0	0	0	0	0	700	700
Less: Funds from Previous Budgets or Fall Statements	0	0	0	0	0	-600	-600
Renewing Canada's Middle East Strategy	0	666	721	2	2	2	1,394
Less: Existing International Assistance Envelope Resources	0	-213	-213	0	0	0	-426
Reinforcing Canada's Support for Ukraine	0	36	34	36	0	0	106
Less: Existing International Assistance Envelope Resources	0	-2	-2	-2	0	0	-6
Part 5. Canada's International Engagement Total	0	488	540	36	2	102	1,167
Part 6. Better Government							
Investing in Service Canada	0	124	112	62	9	0	305
Less: Funds from CPP Account	0	-21	-24	-12	-7	0	-64
Less: Projected Revenues	0	-1	-2	-2	-2	-2	-7
Improving Client Services at the Canada Revenue Agency	0	38	40	41	41	38	198
Foregone Revenues	0	25	25	25	25	25	125
Less: Funds Sourced from Existing Departmental Resources	0	-30	-30	-30	-30	-30	-148
Improving Immigration Client Service	0	18	25	0	0	0	43
Helping Travellers Visit Canada	0	38	40	0	0	0	79
Resolving Income Security Program Disputes More Quickly and Easily	0	36	46	59	57	57	254
Less: Funds from CPP Account	0	-8	-14	-15	-14	-14	-65
Less: Projected Revenues	0	-11	-32	-33	-35	-36	-148
Ensuring Proper Payments for Public Servants	22	366	74	77	8	8	554
Less: Funds existing in the Fiscal Framework	-18	0	0	0	0	0	-18
Part 6. Better Government Total	3	574	260	171	53	46	1,108
Part 7. A Fair Tax System for All Canadians							
Improving Tax Compliance	0	23	43	44	48	59	217
Less: Projected Revenues	0	-65	-76	-76	-76	-76	-369
Strengthening Canada's AML-ATF Regime	0	16	28	35	42	39	161
Less: Funds Sourced from Existing Departmental Resources	0	-4	-5	-5	-2	0	-16
Adjusting the Rules for Cannabis Taxation	0	0	0	0	0	0	0
Improving Access to the Canada Workers Benefit Throughout the Year	0	4	1	0	0	0	4
Small Business Deduction - Farmers and Fishers	0	0	0	0	0	0	0
Closing Tax Loopholes	0	-25	-105	-90	-75	-55	-350
Part 7. A Fair Tax System for All Canadians Total	0	-52	-114	-92	-63	-33	-354
Chapter 4 - Net Fiscal Impact	68	1,750	1,635	829	495	630	5,406

Notes: "0" indicates a nil amount or small amount (less than \$500,000).



GENDER EQUALITY Statement

The Canadian story is one where all people, from all backgrounds, come together for a common good. When everyone can contribute their perspective, skills and insights to the social and economic progress of Canada, the country is enriched. Those shared values of cooperation, fairness and respect for all persons underpin the Government's commitment to greater equality in Canada. When every Canadian has the opportunity to succeed, all Canadians benefit.

Advancing Gender Equality and Diversity

Key GBA+ Milestones

2015

- Canada's first gender-balanced Cabinet
- First full Minister for Status of Women appointed

2016

- GBA+ becomes mandatory for all Memoranda to Cabinet and Treasury Board submissions

2017

- Canada's first ever Gender Statement published

2018

- Budget 2018 establishes Canada's Gender Results Framework
- Parliament passes the *Canadian Gender Budgeting Act*
- Department for Women and Gender Equality is created

Gender budgeting is a foundational element of the Government's strategy to improve equality in Canada. Although the Government has been using **Gender-based Analysis Plus (GBA+)** in the development of policies and programs for over two decades, it has prioritized and reinvigorated this commitment in recent years. Changes put in place by the Government since 2015 are designed to ensure an ongoing focus on gender equality. The Government will continue to strive to improve the quality of data that informs GBA+ across departments.

The ***Canadian Gender Budgeting Act*** was passed by Parliament in December 2018, enshrining the Government's commitment to decision-making that takes into consideration the impacts of policies on all Canadians in a budgetary context.

The **Department for Women and Gender Equality** was also established through legislation introduced by the Government. The new department will advance equality for all Canadians across many dimensions such as sex, sexual orientation, gender identity or expression, race, national and ethnic origin, Indigenous origin or identity, age, socio-economic condition, place of residence and disability. This legislation recognizes the important role that the Minister for Women and Gender Equality plays in providing guidance, best practices and expertise in the area of GBA+.

In Budget 2018, GBA+ was performed for every single budget measure and GBA+ information was included for the main budget measures. Budget 2019 moves even further, reflecting concerted efforts to incorporate GBA+ in the policy development process and to make the Government's analysis available to Canadians. The first part of this chapter presents information on where we currently stand with regard to equality, and how recent government actions work towards improving disparities. The chapter concludes with an overview of GBA+ impacts of Budget 2019 as a whole, while the Budget 2019 GBA+ Annex contains a comprehensive summary of GBA+ analysis by measure. GBA+ continues to be a work in progress; the Government invites Canadians to share their ideas on what they find valuable in this analysis and how it could be improved in future budgets.

Gender Results Framework

"All countries must step up their efforts to ensure that public policy truly reflects—and results in—more inclusive societies, in which boys, girls, men and women can all reach their true potential."

— Organisation for Economic Co-operation and Development (OECD), 2017

The Government's **Gender Results Framework** (GRF) was introduced in Budget 2018 as a whole-of-government tool to help guide future policy decisions and to track developments in gender equality and diversity across a number of identified policy priorities. These priorities, which range from addressing the gender wage gap to promoting more equal parenting roles, are associated with a set of goals and indicators to benchmark progress in achieving gender equality and diversity in Canada. Federal, provincial and territorial ministers have also agreed to track a subset of gender equality indicators to measure progress over time. Canadians can learn more about the Gender Results Framework by accessing two new resources:

- On March 19, 2019, to complement the tabling of Budget 2019, the **Department for Women and Gender Equality** launched the Gender Results Framework Portal, an up-to-date source of data and research relevant to the indicators included in the Framework: (<https://cfc-swc.gc.ca/grf-crrg/index-en.html>).
- Statistics Canada launched the **Centre for Gender, Diversity and Inclusion Statistics** on September 26, 2018. The Centre houses quick facts, statistics and recent analysis related to gender equality and diversity, as well as detailed data tables related to the Gender Results Framework indicators. (http://www.statcan.gc.ca/eng/topics-start/gender_diversity_and_inclusion)

This section presents statistics on a number of GRF indicators, summarizing the current status of the indicators today, noting important action that has been taken to advance progress and highlighting areas where further attention is needed. GRF indicators are not expected to change overnight, but this information reflects the Government's commitment to tracking progress. In other words, the GRF helps the Government see where Canada was, where it is now, and where it can be in relation to gender equality.

Note: In this section, the term "visible minorities" is used because it is the official demographic category defined by the *Employment Equity Act* and used by Statistics Canada, which facilitates longitudinal comparisons.

Minister of Finance Leadership at Home and on the International Stage

The International Gender Champions initiative was launched at the Palais des Nations in Geneva in 2015 as a platform for senior leaders to unite in building a world where gender differences do not prevent individuals from achieving their potential.

In June 2018, the Minister of Finance announced he would become an International Gender Champion, the world's first national Finance Minister to do so.

In becoming an International Gender Champion, the Minister of Finance made three concrete commitments to advance gender equality:

- To ensure rigorous gender budgeting as a means to achieve greater equality and inclusion.
- To achieve gender parity in Canadian appointments to the board of International Finance Institutions for which the Minister of Finance is governor, and to instruct these appointees to prioritize gender equality in their work at these institutions.
- Pledging to no longer sit on single-sex panels. This pledge is at the core of the International Gender Champion initiative.

Canada's Gender Results Framework

Canada's economic future depends on people having equal opportunity to reach their full potential, regardless of gender.

Gender Equality Goals for Canada

 Education and Skills Development	Equal opportunities and diversified paths in education and skills development <ul style="list-style-type: none"> • More diversified educational paths and career choices • Reduced gender gaps in reading and numeracy skills among youth, including Indigenous youth • Equal lifelong learning opportunities and outcomes for adults
 Economic Participation and Prosperity	Equal and full participation in the economy <ul style="list-style-type: none"> • Increased labour market opportunities for women, especially women in underrepresented groups • Reduced gender wage gap • Increased full-time employment of women • Equal sharing of parenting roles and family responsibilities • Better gender balance across occupations • More women in higher-quality jobs, such as permanent and well-paid jobs
 Leadership and Democratic Participation	Gender equality in leadership roles and at all levels of decision-making <ul style="list-style-type: none"> • More women in senior management positions, and more diversity in senior leadership positions • Increased opportunities for women to start and grow their businesses, and succeed on a global scale • More company board seats held by women, and more diversity on company boards • Greater representation of women and underrepresented groups in elected office and ministerial positions in national and sub-national governments • Increased representation of women and underrepresented groups as administrators of the justice system
 Gender-Based Violence and Access to Justice	Eliminating gender-based violence and harassment, and promoting security of the person and access to justice <ul style="list-style-type: none"> • Workplaces are harassment-free • Fewer women are victims of intimate partner violence and sexual assault • Fewer victims of childhood maltreatment • Fewer women killed by an intimate partner • Increased police reporting of violent crimes • Fewer Indigenous women and girls are victims of violence • Increased accountability and responsiveness of the Canadian criminal justice system
 Poverty Reduction, Health and Well-Being	Reduced poverty and improved health outcomes <ul style="list-style-type: none"> • Fewer vulnerable individuals living in poverty • Fewer women and children living in food insecure households • Fewer vulnerable individuals lacking stable, safe and permanent housing • Child and spousal support orders are enforced • More years in good health • Improved mental health • Improved access to contraception for young people and reduced adolescent birth rate
 Gender Equality Around the World	Promoting gender equality to build a more peaceful, inclusive, rules-based and prosperous world <ul style="list-style-type: none"> • Feminist international approach to all policies and programs, including diplomacy, trade, security and development

The GRF is aligned with the Government of Canada's policy of GBA+, ensuring that gender is considered in relation to other intersecting identity factors. Wherever possible, intersecting identity factors will be considered in the above indicators.



Education and Skills Development

Choices about and access to education should be based on interests, aptitudes and goals, free from gendered expectations and stereotypes. This helps Canadians reach their full potential, fostering equality and stronger economic growth. Looking ahead, technological advancement is changing the types of jobs available and the skills needed to succeed in those roles. Lifelong learning to master new skills is proving increasingly necessary to remain competitive. For these reasons, the Government has taken steps to make it easier for Canadians to get the skills training they need and to promote more gender equality in educational outcomes, and help boost the economy.

Key Gender Results Indicators: Where We Stand

Goal: More diversified educational paths and career choices

- Boys are less likely to complete high school than girls. For example, in 2016, 90 per cent of women aged 25-64 years had obtained at least a high school diploma, compared to 87 per cent of men of the same age.
- Women are more likely to continue their education than men, representing 53 per cent of post-secondary credential holders aged 25-64 years in 2016.
- Women with intersecting identities may face additional barriers reaching their educational goals. For example, First Nations, Inuit and Métis women aged 25-64 years have lower high school completion rates than non-Indigenous women at 73 per cent, 57 per cent and 85 per cent, respectively. Indigenous men have even lower rates: 66 per cent among First Nations, 55 per cent among Inuit and 79 per cent among Métis.
- Women are less likely to pursue studies in architecture, engineering, mathematics and computer science than men, accounting for only 24 per cent of students at the undergraduate level in 2016-17. In contrast, men are less likely to study education and health-related fields, accounting for 24 per cent of undergraduate students.

Goal: Reduced gender gaps in reading and numeracy skills among youth, including Indigenous youth

- In 2015, boys aged 15 years had lower average reading scores than girls (514 versus 540), while girls had lower average mathematics scores than boys (511 versus 520). Average science scores were similar across genders (528 for boys and 527 for girls).
- Voluntary questions on Indigenous identity will be included in six provinces as part of the 2018 Programme for International Student Assessment.

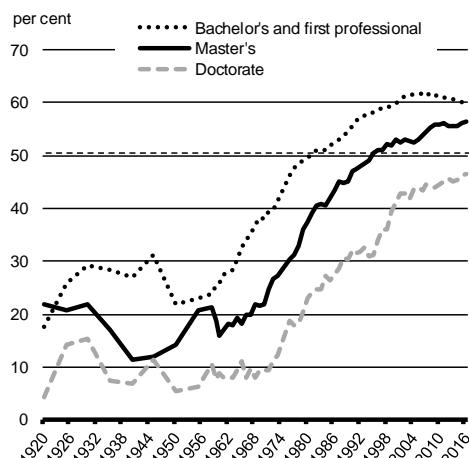
Goal: Equal lifelong learning opportunities and outcomes for adults

- Adult women had lower numeracy scores than men in 2012 (258 versus 273), while adult literacy scores were similar across genders (272 versus 275).
- Women and men were equally likely to participate in adult education and training in 2012 (57 per cent versus 58 per cent).

Sources: 2016 Census; Postsecondary Student Information System; OECD Programme for International Student Assessment; C.D. Howe Institute; OECD Programme for the International Assessment of Adult Competencies; 2012 OECD Survey of Adult Skills; Department of Finance Canada calculations.

Chart 5.1

Proportion of Women Graduates, 1920-2016



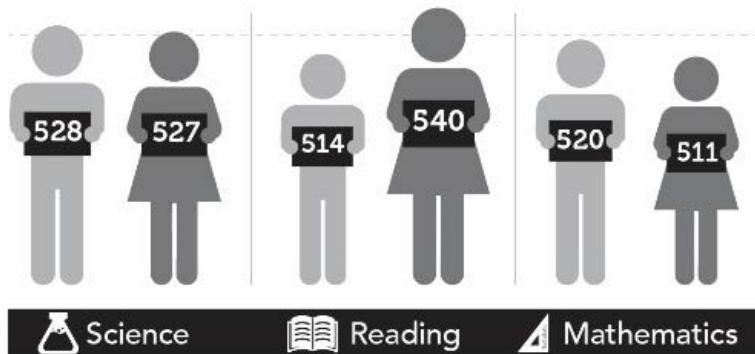
Sources: Statistics Canada; Department of Finance Canada calculations.

Education improves the likelihood of finding a high-quality job and having a comfortable income. Moreover, the skills needed in the labour market are increasingly knowledge-based. Since the start of the 20th century, educational attainment has increased rapidly for all Canadians. In the last half century, the increase has been particularly fast for women, who are now more likely to complete high school and to obtain a post-secondary qualification than men.

There also continue to be important disparities between young men and women in scores on standardized aptitude tests across fields of study. For example, at age 15, boys, on average, achieve higher test scores than girls in mathematics, while girls

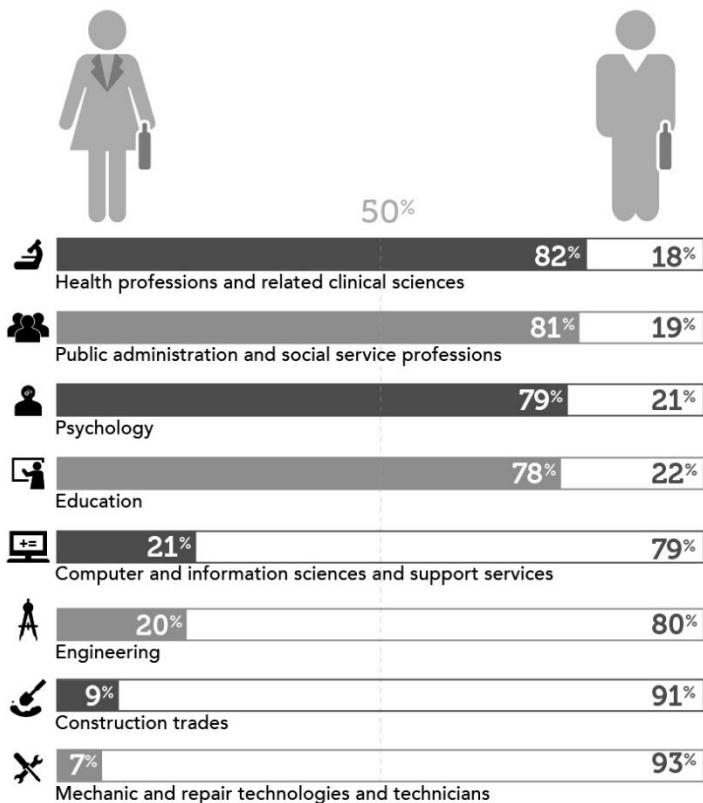
outperform boys in reading. Several studies suggest that these differences are influenced by established norms and institutional barriers around gender roles and identities.

Figure 5.1: High School Reading, Science and Mathematics Test Scores by Gender, 2015



Source: 2015 Programme for International Student Assessment.

Figure 5.2: Proportion of Women Graduates by Selected Fields of Study, 2016



Sources: Postsecondary Student Information System; Department of Finance Canada calculations.

Choices about credential type and field of study at the post-secondary level also differ across genders. Men are less likely to study education and teaching, public administration and health-related fields. Women are less likely to study engineering and mathematics and computer science, and less likely to pursue the trades, accounting for only 11 per cent of newly registered apprentices in Red Seal Trades with inter-provincial standards in 2017. These differences in field of study and credential type lead to differences in occupational choices—and earnings—across genders, and are important factors in explaining the gender wage gap.

With the rapid pace of technological change, lifelong learning and skills training are becoming increasingly important. Although women and men were equally likely to participate in adult education and training in 2012, women were less likely to participate in job-related training (46 per cent compared to 51 per cent).

Supporting Education and Skills Development

Recent Actions

- **CanCode:** This program is providing \$50 million to teach coding and digital skills to students and teachers from kindergarten to Grade 12. The program is designed to reach groups that are traditionally underrepresented in science, technology, engineering and mathematics (STEM). To date, CanCode has reached about 350,000 girls, over 68,000 Indigenous students, over 100,000 youth at risk, and 34,000 newcomers to Canada.
- **Canada Research Chairs:** In November 2018, this program added 285 chair positions and created a new research supplement to support the program's early-career researchers. In total, 649 researchers—about 38 per cent women—benefitted from the stipend. Continued efforts to improve equity among chair holders have increased the proportion of women chair holders to 32 per cent—an historic high for the program.
- **New Frontiers in Research Fund:** This fund, launched in December 2018, will support at least 75 early-career researchers in conducting international, interdisciplinary, fast-breaking and higher-risk research in the fund's first year.
- **Pre-Apprenticeship Program:** This program funds projects that build awareness of the trades as viable, quality career paths and helps individuals pursue them as a career. It is designed to target groups that face barriers to participating in skilled trades careers, including women. Five projects are underway, with another six expected to launch in 2019. The program will track and report the number of women participants in the funded projects in order to demonstrate results with respect to increasing women's representation in the trades.
- **Apprenticeship Incentive Grant for Women:** This grant, launched in December 2018, encourages women to enter the Red Seal Trades and increases opportunities to gain access to well-paying jobs in the skilled trades. The grant is expected to provide support to approximately 5,000 women over a five-year period.
- **Women in Construction Fund:** This fund provides mentoring, coaching and tailored supports that help women progress through their training to find and keep jobs in the trades. The fund will track and report measurable outcomes related to the progression of women in skilled trades (e.g., the percentage of women who report improving their skills, are registered or plan to register in an apprenticeship, participate in the program and are employed in a skilled trade).
- **Indigenous Skills and Employment Training Program:** This program funds Indigenous service delivery organizations that provide skills development, job training and employment services. The program's predecessor, the Aboriginal Skills and Employment Training Strategy, provided job support to roughly 50,000 Indigenous people across Canada, with 47 per cent of clientele being women. Additional funding in Budget 2018 will assist approximately 15,000 more clients.

Supporting Education and Skills Development

Budget 2019 Actions

- Making the **Canada Student Loan Program** more accessible by improving flexibility for vulnerable student loan borrowers, such as students with permanent disabilities.
- Making **Canada Student Loans and Canada Apprentice Loans** more affordable by lowering the interest rates and making the first six months after a borrower exits post-secondary education (the “grace period”) interest-free.
- Implementing the **Canada Service Corps** as Canada’s signature national youth service program.
- Supporting initiatives that provide coding and digital skills development to boys and girls from kindergarten to Grade 12 through the **CanCode** program.
- Renewing and expanding funding for the **Post-Secondary Student Support Program** while engaging with First Nations on the development of long-term First Nations-led post-secondary education models.
- Implementing an Inuit-led post-secondary education strategy.
- Implementing a **Métis Nation-led post-secondary education strategy** consisting of financial assistance for Métis Nations students.
- Engaging girls and boys in science, technology, engineering and mathematics (STEM), introducing them to critical skills development opportunities and opening doors to future studies and occupations through **Let’s Talk Science**.
- Supporting the production of accessible materials for people with print disabilities.
- Funding **Indspire** for scholarships and bursaries for First Nations, Inuit and Métis students.
- **Expanding parental leave coverage** from six months to 12 months for students and postdoctoral fellows who receive granting council funding.
- Helping to address key barriers to **adult upskilling through the Canada Training Benefit**, which combines a Canada Training Credit and a new Employment Insurance Training Support Benefit, along with new leave provisions to be established in consultation with provinces and territories to allow workers time away from work for training.
- Increasing funding to ESDC for the **collection and development of better gender and diversity data** with an aim to improve the improve capacity to better measure, monitor and address gender disparity and promote access of under-represented groups across the Government’s skills programming.
- Ensuring that skills development programs are forward looking and prepare Canadians to meet challenges head on through the **Future Skills Initiative**, announced in Budget 2017.
- Co-developing a new **Arctic and Northern Policy Framework** through ongoing discussions with northern governments and residents, including Indigenous Peoples, and identifying opportunities to enable communities’ economic development and greater prosperity, and expanded post-secondary educational options in the Arctic and North.



Economic Participation and Prosperity

When every individual has the means and opportunity to participate fully in the economy, Canada performs at its best. Advancing economic participation and prosperity for women and other underrepresented groups will raise the incomes of Canadian families and benefit the economy as a whole. For these reasons, the Government has taken steps to help individuals gain access to the labour market and achieve greater financial security.

Key Gender Results Indicators: Where We Stand

Goal: Increased labour market opportunities for women, especially women in underrepresented groups

- Women are less likely to participate in the workforce than men (61 per cent versus 70 per cent in 2018), although men's participation rates have been declining in recent years. Women's employment rates are also lower than men's rates (58 per cent versus 65 per cent).
- Women from underrepresented groups may face additional barriers. In 2018, the participation rate for recent immigrant women was 20 percentage points lower than that for men (61 per cent versus 81 per cent).

Goal: Reduced gender wage gap

- Men earn more than women on an hourly and annual basis. The median hourly gender wage gap for full-time workers was 12 per cent in 2018, while the median annual employment income gap was 30 per cent in 2017.

Goal: Increased full-time employment of women

- Fewer women work in full-time positions, with only 74 per cent of employed women working full-time compared to 88 per cent of men in 2018.

Goal: Equal sharing of parenting roles and family responsibilities

- Over the last 30 years, the share of men participating in housework tasks has increased from 64 per cent to 76 per cent. However, in 2015, women spent 90 minutes more per day on unpaid domestic and care work than men.
- In 2016, the take-up rate among mothers reached 89 per cent in Canada (excluding Quebec), while it was only 13 per cent among fathers. In Quebec, which has dedicated weeks for paternity leave and more generous benefits, the take-up rate among fathers is much higher at 80 per cent. The take-up rate among mothers is also higher at 97 per cent.
- In 2016, there was a child care space for 27.2 per cent of children, up from 24.1 per cent in 2014. There was significant provincial and territorial variation, ranging from 8.4 per cent in Saskatchewan to 55.1 per cent in Quebec.
- In 2015, families with at least one child aged 0-3 years and at least one child aged 4-14 years who had child care expenses spent, on average, 7 per cent of their annual household income on child care.

Key Gender Results Indicators: Where We Stand

Goal: Better gender balance across occupations

- Men represented only 14 per cent of office support workers and 10 per cent of nurses in 2018, while women represented only 17 per cent of those working in front-line public protection services and 4 per cent of those working in industrial, electrical and construction trades.

Goal: More women in higher-quality jobs, such as permanent and well-paid jobs

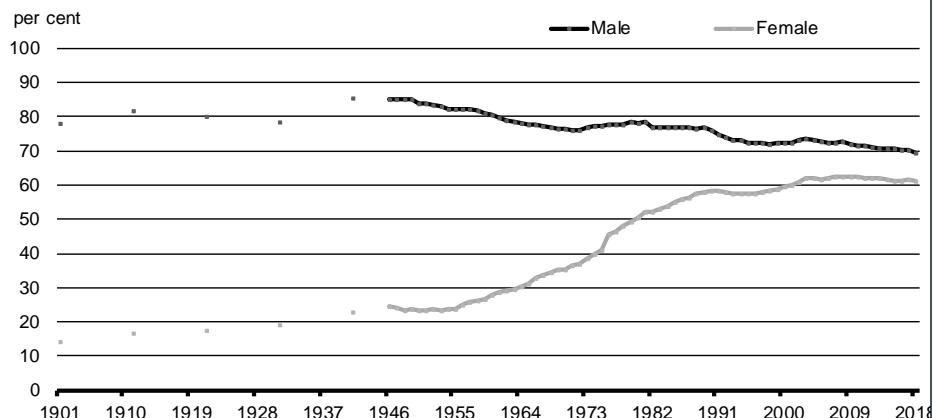
- In 2018, women and men aged 15 years and over were almost equally likely to hold temporary jobs (14 per cent versus 13 per cent) and be working involuntarily part-time (5 per cent versus 3 per cent). Women were somewhat more likely to work in low-wage jobs (26 per cent versus 18 per cent).

Sources: Labour Force Survey; Canadian Income Survey; 2015 General Social Survey; Child Care Resources and Research Unit; Statistics Canada Custom Tabulation; Survey of Household Spending; Department of Finance Canada calculations.

The 20th century witnessed important shifts in gender roles and economic opportunities for women, contributing to a sustained increase in the share of women working and a meaningful reduction of the gender wage gap. However, improvements in labour force participation have stalled since the early 2000s, and the gender wage gap remains quite large. Particular groups of women, such as visible minorities, recent immigrants, Indigenous women and women with disabilities, face additional barriers in the labour market, which are reflected in lower employment rates and lower employment earnings; indeed, the gender wage gap is highest among recent immigrants. Access to affordable, quality child care is cited by many researchers as an important factor in encouraging strong attachment to the labour force among women.

Chart 5.2

Labour Force Participation Rates by Gender, Population Aged 15+, 1901-2018



Source: Statistics Canada.

The factors contributing to the gender wage gap are numerous and complex, but one important factor is persistent social norms that place additional care and family responsibilities on women. Women spend significantly more time than men doing unpaid domestic and caregiving work, which can have an impact on the number of hours they work at more formal, paid labour. Research has also shown that women can face discrimination in hiring and salary decisions, and that mothers can be evaluated as less competent and committed to paid work than women without children. The impact on earnings when women become mothers is often termed the “motherhood penalty.” Since earnings are an important factor in Employment Insurance benefits, pensions and savings, these differences can have important long-term impacts on welfare.

**Table 5.1
Gap in Median Annual Employment Earnings Between Men and Women,
Latest Year**

	Men (\$)	Women (\$)	Gap Relative to Men (%)	Gap Relative to Total Population of Men (%)
Total population	40,600	28,500	30	30
Visible minorities	32,600	25,000	23	38
Recent immigrants	30,200	19,000	37	53
Indigenous Peoples	30,900	23,100	25	43

Notes: Data for the total population are from the 2017 edition of the Canadian Income Survey, while data for visible minorities, recent immigrants and Indigenous Peoples are from the 2016 Census. Income data from the Canadian Income Survey are for individuals 16 years and over, while income data from the Census are for individuals aged 15 years and over.

Sources: Canadian Income Survey; 2016 Census; Department of Finance Canada calculations.

Supporting Economic Participation and Prosperity

Recent Actions

- **Multilateral Early Learning and Child Care Framework:** Through Budgets 2016 and 2017, the Government of Canada committed \$7.5 billion over 11 years for more high-quality affordable child care. Through these investments, the government is on track to create up to 40,000 more child care spaces across the country by 2020. As part of this investment, a new distinctions-based Indigenous Early Learning and Child Care Framework—co-developed with the Assembly of First Nations, Inuit Tapiriit Kanatami, the Métis National Council—is delivering \$1.7 billion over 10 years since 2018-19 to strengthen services for Indigenous families. These investments are in addition to support provided through the Canada Child Benefit, the Canada Social Transfer, and new Parental Leave programs. Leading into 2020, the Government will negotiate renewed early learning and child care agreements with provinces and territories, while seeking additional investments, more transparency, and better outcomes from underperforming partners.
- **Employment Insurance (EI) Parental Sharing Benefit:** Starting March 17, 2019, three months earlier than originally planned, this benefit will provide additional weeks of EI parental benefits when both parents agree to share parental leave, thereby encouraging greater equality in the distribution of family, child care and home responsibilities. A more equitable parental leave will also help lead to more equitable hiring practices, reducing conscious and unconscious bias by employers.
- **Proactive Pay Equity Regime:** This new proactive pay equity regime, which received Royal Assent on December 12, 2018, will contribute to enhancing fairness in the workplace by ensuring men and women in federally regulated sectors receive the same pay for work of equal value.
- **Pay Transparency:** Budget 2018 provided \$3 million over five years to implement pay transparency for federally regulated employers. Pay transparency will require federally regulated private sector employers to report the wage gap for women, Indigenous Peoples, persons with disabilities and members of visible minorities.
- **Labour Market Information (LMI):** Building on a commitment to enhance the quality of LMI, including the launch of a one-stop national labour market information portal, Employment and Social Development Canada and Statistics Canada are working to improve the quality of labour market information and its accessibility to Canadians, in partnership with the recently established Labour Market Information Council. Statistics Canada has begun to release articles providing insights on post-secondary enrolments, post-secondary graduates, labour market outcomes for college and university graduates, as well as earnings indicators for registered apprentices.
- **Visible Minority Newcomers:** Budget 2018 announced funding of \$31.8 million over three years, starting in 2018-19, to launch a 3-year pilot to support programming for newcomer women who are also visible minorities to help them get into and stay in the workforce.

Supporting Economic Participation and Prosperity

Budget 2019 Actions

- Launching a modernized **Youth Employment Strategy** that helps youth gain the skills and experience they need to find a job by offering a suite of supports tailored to their needs.
- Investing in work-integrated learning by expanding the **Student Work Placement Program**, investing in additional placement opportunities, and partnering with the Business/Higher Education Roundtable to support up to 84,000 new work placements per year by 2023-24 for post-secondary students across Canada.
- Making it easier for workers and employers to navigate the wide variety of skills development programs, and ensuring that the programs reflect employers' needs by simplifying access to skills programming and emphasizing skills innovation and experimentation with partners to ensure programs respond to changing labour market needs.
- Improving employment of persons with visual impairments.
- Identifying, removing and preventing technological barriers in federal government workplaces.
- Consulting with Indigenous communities on major energy projects and supporting Indigenous economic participation in the natural resource sectors.
- **Promoting apprenticeships in skilled trades and technology** as viable career paths through the Skills Canada Program and a new Apprenticeship Campaign.
- Developing a new strategy to **support apprentices and those employed in the skilled trades**, ensuring that programs effectively target the barriers to entry and aid progression for Canadians who want to work in the skilled trades.
- Introducing new requirements for federally regulated financial institutions to disclose policies aimed at promoting **greater diversity on boards and in senior management**.



Leadership and Democratic Participation

Gender equality and diversity in leadership and at all levels of decision-making are essential to a fair and democratic society. The Government has taken steps to encourage diversity in economic, political and judicial spheres.

Key Gender Results Indicators: Where We Stand

Goal: More women in senior management positions, and more diversity in senior leadership positions

- Women accounted for 48 per cent of employment in 2018, but only 33 per cent of those employed in senior management. Women accounted for only 9 per cent of C-suite executives at Canada's 100 largest publicly traded corporations.

Goal: Increased opportunities for women to start and grow their business, and succeed on a global scale

- In 2017, 16 per cent SMEs were majority-owned by women. Of those that are exporters, 15 per cent were majority-owned by women.
- Visible minorities held the majority ownership of 12 per cent of SMEs in 2017, Indigenous Peoples held 1 per cent, and people with disabilities held 1 per cent.

Goal: More company board seats held by women, and more diversity on company boards

- In 2018, 25 per cent of FP500 board seats were held by women. Indigenous Peoples, visible minorities, people with disabilities and LGBTQ2+ represented 1 per cent, 6 per cent, 1 per cent and 1 per cent of directors, respectively.

Goal: Greater representation of women and underrepresented groups in elected office and ministerial positions in national and sub-national governments

- Women account for 27 per cent of federal Members of Parliament, 47 per cent of federal Cabinet Ministers, and 47 per cent of federal Senators.
- Only one of 13 Premiers, about one in three cabinet members and elected officials in provincial and territorial governments are women.
- 13 per cent of mayors and 36 per cent of councillors are women in municipalities with over 200,000 inhabitants, while 28 per cent of councillors and 21 per cent of Chiefs of First Nations Band Councils are women.

Key Gender Results Indicators: Where We Stand

Goal: Increased representation of women and underrepresented groups as administrators of the justice system

- In 2017-18, of the 79 appointments to the federal judicial system over the year starting October 2017, 46 were women, 3 were Indigenous, 7 were visible minorities, 11 identified as part of an ethnic or cultural group, 2 were persons with disabilities, and 6 identified as LGBTQ2+.
- In 2017, women represented 21 per cent of police officers across all police forces in Canada. In the Royal Canadian Mounted Police, about one-fifth are women. In 2016, visible minorities represented 22 per cent of the population but only 8 per cent of police officers, while Indigenous Peoples represented 5 per cent, roughly equal to their share of the population.

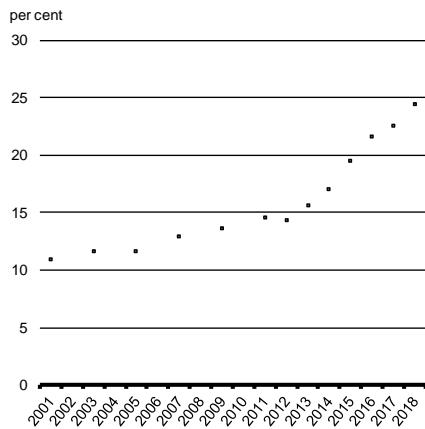
Sources: Labour Force Survey; Women in Capital Markets; 2017 Survey on Financing and Growth of Small and Medium Enterprises; Canadian Board Diversity Council; House of Commons; Senate; Indigenous Services Canada; Office of the Commissioner for Federal Judicial Affairs Canada; Police Administration Survey; Royal Canadian Mounted Police; 2016 Census.

Women and diversity in leadership is good for business, and good for Canada's economy. In less than two decades, women's representation on the boards of Canada's largest corporations has significantly improved; however, women still represent only a small portion of company board members. In the Financial Post 500 (FP500) ranking, which includes public firms, private companies, subsidiaries and Crown corporations, women accounted for 25 per cent of board seats in 2018, up from 11 per cent in 2001.

Taking into account only publicly listed companies, Canada ranked 15th out of 36 OECD countries, with women holding 26 per cent of board seats in 2017. Although Canada's share was higher than the OECD average (22 per cent), it was below that of France (43 per cent) and all other Group of Seven (G7) countries except the United States and Japan.

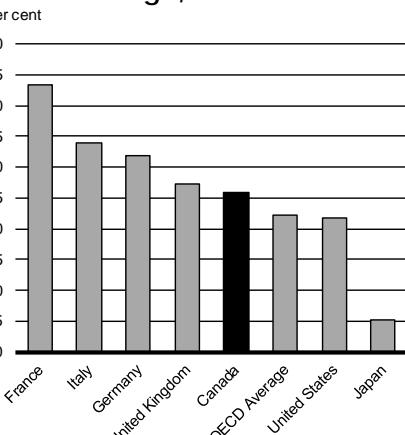
Chart 5.3

Proportion of Women FP500 Board Members, 2001-2018



Source: Canadian Board Diversity Council.

Share of Board Seats Held by Women, Largest Publicly Listed Companies, G7 Countries and OECD Average, 2017

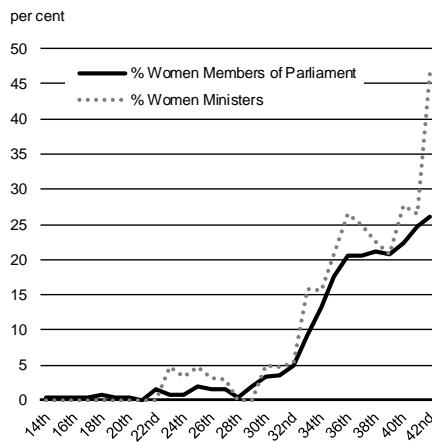


Source: OECD.

Diversity in public institutions is particularly important as these bodies create and enforce legislation that can significantly influence people's day-to-day lives. Over the last generation, there has been important progress in terms of gender representation in political life. For example, women currently represent almost half of the Cabinet Ministers at the federal level and almost half of the Senators. However, there continues to be underrepresentation of women in the federal House of Commons, with women accounting for only slightly more than one-quarter of the Members of Parliament. This places Canada's gender representation in the lower house below that of all G7 countries except the United States and Japan.

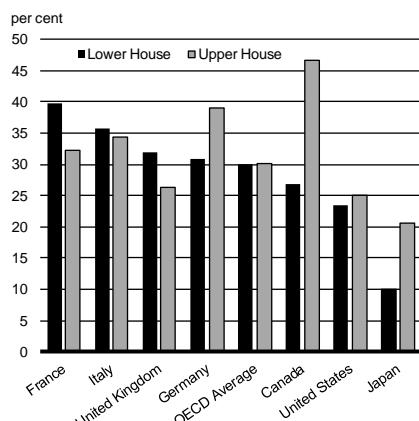
Chart 5.4

**Share of Women Federal Members of Parliament and Cabinet Appointments,
14th - 42nd Parliament**



Sources: Parliament of Canada; Department of Finance Canada calculations.

Share of Seats Held by Women in National Parliaments, G7 Countries, January 2019



Source: Women in National Parliaments, Inter-Parliamentary Union.

There has also been significant progress toward gender equality in new appointments and elevations of judges to superior courts in Canada. For example, in 2006-07, women represented only 30 per cent of new appointments and 36 per cent of elevations, while in 2017-18, women accounted for 58 per cent of new appointments and elevations. Starting in 2016-17, the Office of the Commissioner for Federal Judicial Affairs also started collecting data on diversity, including on Indigenous Peoples, visible minorities, people identifying as belonging to an ethnic or cultural group, persons with disabilities, and persons identifying as LGTBQ2, to better understand how appointments and elevations of judges to superior courts reflect the diversity of the Canadian experience.

Promoting Leadership and Democratic Participation

Recent Actions

- **Governor-in-Council Appointees:** Since the implementation of the new nomination process for Governor-in-Council (GIC) appointments, the gender representation of women serving as GIC appointees has increased from 34 per cent in late 2015 to 47 per cent today.
- **Diversity on Corporate Boards:** Bill C-25 became law on May 1, 2018. It includes the provision that publicly traded corporations regulated by the *Canada Business Corporations Act* are required to provide shareholders with information on the corporations' policies related to diversity (beyond gender) on the board of directors and within senior management.
- **GBA+ Forum:** In November 2018, the Department for Women and Gender Equality hosted the first ever GBA+ Forum, a national dialogue on improving the effectiveness of GBA+, sharing best practices and reflecting on challenges and successes. More than 1,000 participants took part in person and online from all levels of government, as well as civil society—including non-governmental organizations, academics, leaders from the private sector and international stakeholders.
- **Work-Life Balance for Members of Parliament:** Amendments to the *Parliament of Canada Act* allow the House of Commons and the Senate to adopt regulations permitting parental leave. The Government also announced its intention in Budget 2018 to work toward better accommodation for Members of Parliament with young children, notably by providing child care and designated spaces for their use.
- **Women Entrepreneurship Strategy:** Budget 2018 announced the Women Entrepreneurship Strategy, a comprehensive, whole-of-government plan investing nearly \$2 billion to help women start and grow their businesses, responding to the advice of the Canada-United States Council for Advancement of Women Entrepreneurs and Business Leaders. Through multiple investments, women entrepreneurs (including diverse and underrepresented women) and their businesses will benefit from increased access to financing, talent, networks and expertise.
- **Women's Program:** Budget 2018 invested \$100 million to build the capacity of women's and equality-seeking organizations and reduce gender inequality by supporting initiatives such as Daughters of the Vote.

Promoting Leadership and Democratic Participation

Budget 2019 Actions

- Enhancing the funding of the **Métis Capital Corporations** to support the start-up and expansion of Métis small and medium-sized enterprises.
- Expanding the Aboriginal Entrepreneurship Program.
- Creating the **Indigenous Growth Fund** to allow all Aboriginal Financial Institutions, including Métis Capital Corporations and others, to support more Indigenous entrepreneurs and more ambitious projects.
- Investing in **Futurpreneur Canada** so that it can continue supporting the next generation of entrepreneurs.
- Supporting the construction of an **Indigenous Legal Lodge** at the University of Victoria. The Indigenous Legal Lodge will house the university's new dual degree program in Canadian Common Law and Indigenous Legal Orders, and will serve as a foundation for debate, learning, public education and partnership on the revitalization of Indigenous laws.
- Enhancing the **Women's Program** to advance gender equality in Canada, including support for projects that will **encourage women and girls in leadership and decision-making roles**.
- Introducing new requirements for federally regulated financial institutions to disclose policies aimed at promoting **greater diversity on boards and in senior management**.



Gender-Based Violence and Access to Justice

All Canadians should be safe and free from physical, emotional or sexual violence, discrimination and harassment. The Government is taking steps to prevent violence and workplace harassment, enhance support for survivors, and improve the responsiveness and accountability within the criminal justice system.

Key Gender Results Indicators: Where We Stand

Goal: Workplaces are harassment-free

- Women are victims of workplace harassment more often than men. In 2016, 19 per cent of working-age women and 13 per cent of men reported experiencing workplace harassment in the past 12 months.

Goal: Fewer women are victims of intimate partner violence and sexual assault

- Women are overrepresented as victims of police-reported intimate partner violence. In 2017, women accounted for almost 8 out of 10 victims.
- Women are more than 7 times more likely to be victims of sexual assault than men. In 2013-2014, there were 37 self-reported incidents of sexual assault for every 1,000 women aged 15 years and older.

Goal: Fewer victims of childhood maltreatment

- More men recall experiencing childhood maltreatment than women. In 2014, 32 per cent of men and 27 per cent of women reported experiencing physical and/or sexual abuse before the age of 15 years.

Goal: Fewer women killed by an intimate partner

- Women were 5 times more likely to be killed by an intimate partner than men. In 2017, the rate of intimate partner homicide was 0.41 per 100,000 women, while it was 0.08 per 100,000 men. Women accounted for 84 per cent of homicide victims killed by an intimate partner in 2017.

Goal: Increased police reporting of violent crimes

- Sexual assault incidents were the least likely to be reported to the police of all incidents of violent victimization. In 2014, 83 per cent of sexual assault incidents were not reported to the police, compared to 54 per cent of robbery incidents and 60 per cent of physical assault incidents.

Goal: Fewer Indigenous women and girls are victims of violence

- Indigenous women are more likely to experience sexual assault. In 2014, Indigenous women recorded a sexual assault rate of 113 incidents per 1,000 women, more than three times higher than the rate for non-Indigenous women and more than 22 times higher than the rate for non-Indigenous men.

Key Gender Results Indicators: Where We Stand

- In late 2013, the RCMP initiated a study of reported incidents of missing and murdered Indigenous women across all police jurisdictions in Canada. There were 1,181 police-reported incidents of Indigenous women homicides and unresolved missing Indigenous women. In 2013, Indigenous women made up approximately 11 per cent of all missing women and roughly 16 per cent of all homicides where women are victims, higher than their population share at the time of 4 per cent.

Goal: Increased accountability and responsiveness of the Canadian criminal justice system

- In 2017, 14 per cent of sexual assaults reported to all police forces in Canada (e.g., federal, provincial, municipal) were classified as unfounded, down from 19 per cent in 2016.

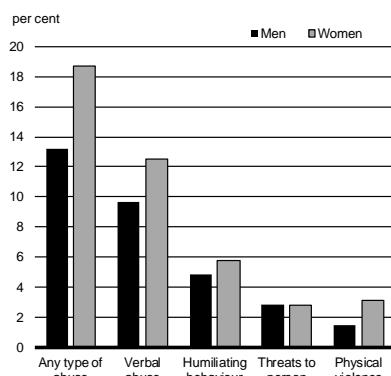
Sources: 2016 General Social Survey; 2014 General Social Survey; Uniform Crime Reporting Survey; Homicide Survey; Royal Canadian Mounted Police.

Discrimination, harassment and violence in the workplace can have profound negative effects on health and safety, absenteeism and productivity. Workplace harassment, which includes verbal abuse, humiliating behaviour, threats to the person, physical violence and unwanted sexual attention or sexual harassment, can be experienced by anyone, regardless of gender, race, ethnicity, religion or sexual orientation. In 2016, women were more likely to report experiencing workplace harassment than men, with gender differences most pronounced for cases of verbal abuse and unwanted sexual attention or sexual harassment.

Physical and sexual violence can also occur in childhood, and is often accompanied by profound and long-lasting negative impacts, sometimes spanning generations. Individuals who experience childhood maltreatment are also more than twice as likely to experience violent victimization as adults. In 2014, a higher share of men than women aged 15 years and older reported childhood maltreatment, although women were more likely to report being sexually abused, while men were more likely to report being physically abused.

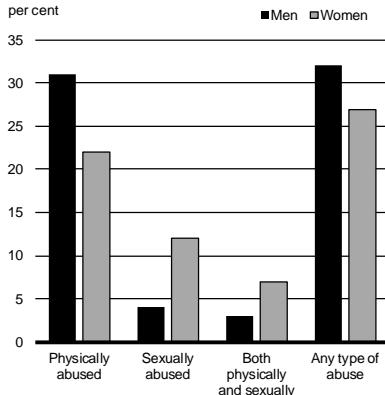
Chart 5.5

Proportion of Self-Reporting Harassment in the Workplace by Type of Harassment and Gender



Source: 2016 General Social Survey.

Proportion Self-Reporting Childhood Maltreatment Before Age 15 by Type of Maltreatment and Gender



Source: 2014 General Social Survey.

Indigenous girls and young women are overrepresented among victims of violence. Although only 7 per cent of young women and girls are Indigenous, they accounted for 34 per cent of the homicide victims that were young women or girls over the past decade.

Addressing Gender-Based Violence and Improving Access to Justice

Recent Actions

- **Canada's Strategy to Prevent and Address Gender-Based Violence:** The Government has invested nearly \$200 million, and over \$40 million per year ongoing, for new and expanded initiatives related to gender-based violence. The initiatives are organized across the strategy's three pillars: Preventing Gender-Based Violence, Supporting Survivors and their Families, and Promoting Responsive Legal and Justice Systems, and are coordinated through the Gender-Based Violence Knowledge Centre, launched on December 10, 2018.
- **Workplace Harassment:** The Government has invested \$50.4 million over five years to boost legal aid across the country, to support victims of sexual harassment in the workplace, and to establish a pan-Canadian outreach and awareness campaign. The Government also invested \$34.9 million over five years and \$7.4 million per year ongoing to support the implementation of Bill C-65, which was passed on October 25, 2018 to ensure federal workplaces are protected from harassment and violence. Funding has been allocated towards regulatory development, the training and hiring of new special investigators, and the development of educational materials and tools. Additionally, an outreach Hub to support employees has been staffed and running since March 2018.

Addressing Gender-Based Violence and Improving Access to Justice

- **Canadian Human Rights Act and Criminal Code:** Legislation on gender identity and gender expression became law in June 2017 protecting individuals from discrimination based on gender identity and gender expression in the Act. It also expands the reasons in the *Criminal Code* for longer sentences for hate-motivated criminal offences to include gender identity and gender expression.
- **Unified Family Courts:** Budget 2018 proposed \$77.2 million over four years and \$20.8 million per year ongoing to support the creation of 39 new Unified Family Court judicial positions. These courts will help streamline family justice for Canadians, contributing to better outcomes for families.
- **Unfounded Sexual Assault Cases:** Budget 2018 provided the RCMP with \$10 million over five years and \$2 million per year ongoing to increase the RCMP's capacity to address sexual assault complaints coded as "unfounded." In particular, the RCMP is taking action to strengthen police training and awareness, investigative accountability, victim support, public education and communication.
- **National Housing Strategy:** This strategy prioritizes the most vulnerable Canadians, including women and children fleeing family violence. The \$13.2 billion National Housing Co-Investment Fund, launched in May 2018, will help build 60,000 new units and repair or renew 240,000 units. This includes 4,000 shelter spaces for survivors of family violence, which will help reduce wait times for beds, and help women who might otherwise return to abusive relationships or turn to the streets. This is in addition to Budget 2016 funding to create 3,000 shelter spaces. The Co-Investment Fund is also encouraging partnerships between housing projects and support services to help those experiencing mental health or addiction challenges.
- **National Framework to Prevent Gender-Based Violence on Campus:** Budget 2018 committed \$5.5 million over five years to work with stakeholders, including provincial and territorial governments, to develop a framework to prevent and address gender-based violence at post-secondary institutions.
- **National Inquiry into Missing and Murdered Indigenous Women:** Budget 2016 and subsequent funding provided \$53.9 million to launch the National Inquiry into Missing and Murdered Indigenous Women and Girls. In June 2018, in response to the Interim Report, the Government provided: \$21.3 million over three years to increase health supports and victim services for survivors and families; \$5.42 million to extend the availability of Family Information Liaison Units and funding for community-based organizations to support families beyond the life of the Inquiry; \$10 million over two years to establish a commemoration fund; \$1.25 million over two years to fund organizations with expertise in law enforcement and policing to lead a review of police policies and practices; and \$9.6 million over five years to support the Royal Canadian Mounted Police's new National Investigative Standards and Practices Unit. The Inquiry's Final Report will be released in April 2019.

Addressing Gender-Based Violence and Improving Access to Justice

Budget 2019 Actions

- Supporting efforts to combat the sexual exploitation of children online.
- Supporting Indigenous law initiatives across Canada through the **Justice Partnership and Innovation Program**, to improve equality for Indigenous Peoples in Canada's legal system.
- Announcing the Government's intention to develop a new, whole-of-government strategy to **combat human trafficking**.
- Supporting the growing demand for **Public Legal Education and Information services** across Canada.
- Supporting legislative amendments for increased **access to family justice**—and divorce in particular—in the official language of one's choice.
- Enhancing the **Women's Program** to advance gender equality in Canada, including support for projects that will address gender-based violence.

Poverty Reduction, Health and Well-Being

All Canadians should have a real and fair opportunity to succeed, including resources to ensure their basic needs are met. The Government's new Poverty Reduction Strategy provides clear targets to reduce poverty based on Canada's Official Poverty Line. It will also help support Canadians working hard to join the middle class and build a diverse, prosperous and truly inclusive country, where all can realize their full potential. Due in part to the recent investments of the Government, such as the Canada Child Benefit, Canada has achieved its targeted 20 per cent reduction of poverty three years ahead of time, lifting over 825,000 Canadians out of poverty compared to 2015.

Key Gender Results Indicators: Where We Stand

Goal: Fewer vulnerable individuals living in poverty

- In 2017, 9.4 per cent of men and 9.6 per cent of women were below the poverty line, defined by the cost of a basket of essential goods and services.
- People in lone-parent households headed by women were more likely to be in poverty than people living in couples (25 per cent versus 7 per cent).

Goal: Fewer women and children living in food insecure households

- Food insecurity occurs when a household must compromise in quality and/or quantity of food consumed, or reduce food intake and disrupt eating patterns. In 2011-12, 7 per cent of men aged 12 years and over lived in food insecure households, compared to 9 per cent of women. Lone-parent households were significantly more likely to face food insecurity than households led by couples (23 per cent compared to 7 per cent).

Goal: Fewer vulnerable individuals lacking stable, safe and permanent housing

- A household in core housing need is one whose dwelling is considered unsuitable, inadequate or unaffordable and who could not afford alternative adequate housing in their community. In 2016, 26 per cent of women who were lone parents lived in core housing need, compared to 11 per cent of all women and 10 per cent of all men.
- In 2016, 18 per cent of the visible minority population was in core housing need, compared to 9 per cent of the non-visible minority population.

Goal: Child and spousal support orders are enforced

- In 2016-17, only 71 per cent of the total support payments in active cases was collected when both the spouse and child are beneficiaries, lower than when only the child (77 per cent) or only the spouse (85 per cent) is the beneficiary.

Key Gender Results Indicators: Where We Stand

Goal: More years in good health

- A girl born in 2015 had an expected 71 years in good health compared to 69 years for a boy.
- The leading cause of death for men and women in 2016 was malignant neoplasms (cancerous tumours) followed by diseases of the heart. In both cases, the death rate was higher for men than for women. Deaths caused by intentional self-harm were significantly higher among men (16 per 100,000) than among women (6 per 100,000).
- In 2015, 96 per cent of girls aged 5-17 years were not meeting the physical activity guidelines compared to 88 per cent of boys. 82 per cent of men and 83 per cent of women aged 18-79 years were not meeting the guidelines.

Goal: Improved mental health

- In 2017, 68 per cent of women aged 12 years and over self-reported a high level of mental health compared to 73 per cent of men.
- Indigenous Peoples have significantly higher rates of suicide.

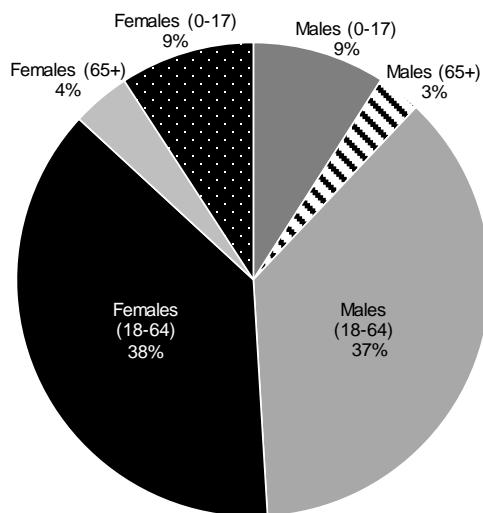
Goal: Improved access to contraception for young people and reduced adolescent birth rate

- Of those sexually active aged 15-34 years not trying to conceive and not pregnant, 29 per cent did not use a condom or other method of contraception during their last sexual intercourse.
- In 2017, the adolescent birth rate was 7.9 live births per 1,000 women aged 15-19 years, down from 17.3 live births per 1,000 women in 2000.

Sources: Canadian Income Survey; 2011-2012 Canadian Community Health Survey; 2016 Census; Survey of Maintenance Enforcement Programs; Vital Statistics – Death Database; Vital Statistics – Birth Database; Canadian Health Measures Survey; Canadian Community Health Survey – Annual Component; Department of Finance Canada calculations.

Chart 5.6

Persons in Poverty by Age and Sex, 2017

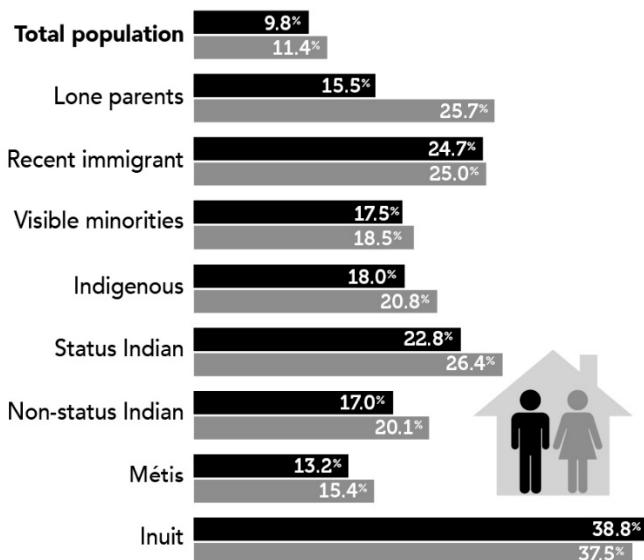


Sources: Canadian Income Survey; Department of Finance Canada calculations.

In 2017, women and men were almost equally likely to face poverty, although there were important differences for specific subgroups of women. For example, lone-parent households led by women were much more likely to face food insecurity and lack appropriate housing than lone-parent households led by men or couple households.

Other underrepresented groups also face an elevated risk of poverty and lack of appropriate housing and/or food security. Indigenous Peoples, recent immigrants and persons with disabilities are particularly at risk. For example, 1 in 4 recent immigrants and almost 4 in 10 Inuit are in core housing need.

Figure 5.3: Core Housing Need by Gender and Underrepresented Groups, 2016



Sources: 2016 Census; Department of Finance Canada calculations.

Poverty is closely linked to longevity. For example, boys born into the poorest households in Canada in 2010-2012 are expected to live 76 years, while boys born into the richest households in Canada in the same years could expect to live 81 years. Girls born into the poorest households faced a smaller gap, but could still expect to live 2.4 years less than those born into the richest households.

Poverty can also lead to significantly lower levels of mental and physical health. In particular, individuals living in the poorest households were less likely to report very good or excellent mental or physical health than those in the richest households. For all types of households, women are less likely to report very good or excellent mental health than men. However, the Canadian Mental Health Association notes that mental health problems may go undiagnosed among men because they find it relatively more difficult to acknowledge emotional symptoms compared to physical ones.

Reducing Poverty and Supporting Health and Well-Being

Recent Actions

- **Canada Child Benefit:** Introduced in Budget 2016, this benefit provides more money to low- and middle-income families to help with the high cost of raising children. Nine out of 10 Canadian families are receiving more in child benefits than they did under the previous system. The Canada Child Benefit has helped lift nearly 300,000 children out of poverty.
- **Poverty Reduction Strategy:** Released in August 2018, the Strategy introduced Canada's Official Poverty Line and set targets to reduce poverty by 20 per cent by 2020, which has already been reached, and 50 per cent by 2030 from 2015 levels. The Strategy also committed to the establishment of a National Advisory Council on Poverty, tasked to advise and publicly report progress toward poverty reduction.
- **Indigenous Health and Safety:** Since 2015, the Government has announced nearly \$9 billion in infrastructure investments to improve the lives of Indigenous Peoples. Budgets 2017 and 2018 announced funding to reduce overcrowding and housing in disrepair through support for distinctions-based housing strategies and investments in the repair and construction of housing units in First Nations, Inuit and Métis Nation communities. Additional investments have provided over \$3.1 billion to help close gaps in health outcomes between Indigenous Peoples and non-Indigenous Canadians. This includes the continued implementation of Jordan's Principle, which ensures that First Nations children can access public services that are typically available to other children, including health services. In addition, there have been investments to help address acute health issues, provide greater support for distinctions-based health care data collection and delivery, and expand Indigenous health systems that are increasingly delivered and controlled by Indigenous Peoples. As key social determinants of health, budget investments in housing, infrastructure and safe drinking water have also contributed to positive health outcomes for Indigenous communities. Since November 2015, more than 80 of 105 long-term drinking water advisories have been lifted on public systems on-reserve.

Reducing Poverty and Supporting Health and Well-Being

- **Home Care and Mental Health:** In Budget 2017, the Government committed \$11 billion over 10 years to provincial and territorial governments to support home care and mental health. This funding will help more Canadians to receive better care at home or in their community. It will also help expand access to community-based mental health and addiction services, particularly for children and youth.
- **Mental Health Supports for Inmates:** The Correctional Service of Canada implemented a full intermediary mental health care staffing model in maximum-security units in each of its five regional women's institutions. It is also working to expand access to in-patient psychiatric care for women in federal corrections.
- **National Housing Strategy:** Launched in November 2017, the initiative sets ambitious targets of removing 530,000 families from housing need, cutting chronic homelessness by 50 per cent, renovating and modernizing 300,000 housing units and building 100,000 new units for families in need. Under this Strategy, in May 2018, the Government launched the National Housing Co-Investment Fund to provide loans and contributions to support the creation or repair of affordable homes, which has seen positive uptake. In addition, a redesigned federal homelessness program, to be called Reaching Home, will be launched in April 2019.

Reducing Poverty and Supporting Health and Well-Being

Budget 2019 Actions

- Enhancing the **Guaranteed Income Supplement** earnings exemption to improve the economic security of lower-income seniors.
- Supporting the implementation of Canada's first National Dementia Strategy.
- Introducing legislation to proactively enroll **Canada Pension Plan** contributors who are age 70 or older in 2020 but have not yet applied to receive their retirement pension, ensuring Canadian seniors have access to the benefits to which they are entitled.
- Supporting **Prince Edward Island's Public Safety Housing Project** to assist individuals with complex health and social needs.
- Implementing **Jordan's Principle**, while work continues to develop a longer-term approach.
- Continuing work with Inuit partners to address the **immediate needs of Inuit children** and their unique challenges accessing health and social services.
- Ensuring the **Assisted Living Program** continues to meet the needs of seniors and people with disabilities on-reserve.
- Engaging with First Nations and Inuit communities in the **development of a long-term care strategy**.
- Supporting the construction and ongoing operation of a **treatment facility in Nunavut**, help ensure that Inuit and other residents of Nunavut have access to mental health and substance use supports.
- Supporting ongoing efforts to eliminate and prevent long-term drinking water advisories in First Nations communities.
- Ensuring that urban Indigenous residents have safe and accessible spaces to access culturally-relevant services, through capital infrastructure **investments in Friendship Centres and other Urban Programming for Indigenous Peoples** service provider facilities.
- Supporting seniors' participation and inclusion in their communities through the **New Horizons for Seniors Program**.
- Ensuring refugees and other eligible claimants have access to temporary health coverage under the **Interim Federal Health Program**, easing the health care costs of provincial and territorial governments.
- Creating a pan-Canadian database for organ donation and transplantation.
- Enhancing the Federal Government's response to the **opioid crisis**.
- Expanding the reach of the **National Inuit Suicide Prevention Strategy** to enhance access to Inuit-specific mental health supports.
- Supporting a Pan-Canadian Suicide Prevention Service.



Gender Equality Around the World

Despite important advances over the last two decades, women and girls around the world continue to face unequal access to resources, opportunities and security that prevent them from realizing their full potential. Full and equal participation of women and girls can lead to greater prosperity, improved quality of life and peace and security for everyone. For these reasons and more, Canada is applying a feminist lens across all international policies.

Key Gender Results Indicators: Where We Stand

Goal: Increased and meaningful participation of women in peace and security efforts

- In 2018, women comprised only 5 per cent of combined UN police and military personnel in peacekeeping missions. Evidence shows that the inclusion of women in peacekeeping has benefits for effective operations.

Goal: More women in leadership and decision-making roles, and stronger women's rights organizations

- While evidence shows that women's rights organizations are the single most significant factor in influencing policy changes towards gender equality, only 0.5 per cent of the total amount of aid earmarked for OECD gender specific programming went to women's rights organizations in 2014.
- Between 1997 and 2019, the global average of women members of parliament rose from 12 per cent to 24 per cent.

Goal: More women and girls have access to sexual and reproductive health services, and their rights are promoted

- There were an estimated 89 million unintended pregnancies in developing countries in 2017, and every day approximately 830 women die from preventable causes related to pregnancy and childbirth, with adolescent girls facing an even higher risk of complications and death.

Goal: More of Canada's trade agreements include gender-related provisions

- Canada's new and revised trade agreements include gender provisions, including free trade agreements with Chile and Israel, the Canada-United States-Mexico Agreement, and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

Goal: More women have equitable access to and control over the resources they need to build their own economic success and the economic success of their communities

- In 2018, nearly 40 per cent of countries worldwide imposed constraints on women's right to own property, 104 countries had laws preventing women from working specific jobs, and in 18 countries husbands could legally prevent their wives from working.

Key Gender Results Indicators: Where We Stand

Goal: Fewer people are victims of sexual and gender-based violence and sexual exploitation, including in conflict settings and online

- 1 in 3 women worldwide are estimated to have experienced physical and/or sexual intimate partner violence or sexual violence by a non-partner, and at least 200 million women and girls worldwide have been subjected to female genital mutilation, of which 44 million are girls below age 15.

Goal: More girls and women access quality education and skills training

- Women make up more than two-thirds of the world's nearly 750 million illiterate people, and in conflict zones girls are 2.5 times more likely than boys to be out of school entirely.

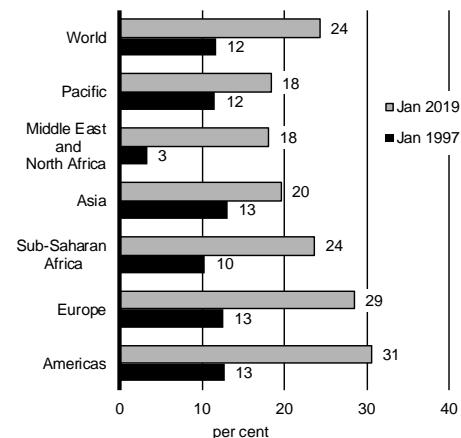
Sources: United Nations Department of Peacekeeping Operations; Inter-Parliamentary Union; Global Affairs Canada; World Bank; United Nations Children's Fund (UNICEF); United Nations Women.

In the past generation, the world has made steady advances towards gender equality and the empowerment of women and girls. Since the UN's Fourth World Conference on Women in 1995, international frameworks have been established to promote gender equality and important progress has been made in some areas. For instance, between 2005 and 2017 the number of women holding ministerial positions in government increased by 44 per cent, and women now make up half or more of those attending university in 93 countries worldwide.

However, important gaps remain as only 63 per cent of women aged 25-54 participate in the formal labour market, compared to 94 per cent of men.

Moreover, momentum towards gender equality has recently stalled. Just last year the United Nations warned that international progress on gender equality was "unacceptably slow"—a claim backed up by mounting evidence. For example, the World Economic Forum confirms that, despite significant variation across countries and regions, global progress towards gender equality—as measured by an index of equality in health and survival, educational attainment, political participation, and economic participation and opportunity—has plateaued.

Chart 5.7
World and Regional Averages of Women in Parliaments, 1997 and 2019



Notes: The percentages do not take into account parliaments for which data is not available. Both houses combined.

Source: Women in National Parliaments, Inter-Parliamentary Union.

Though gaps between men and women have narrowed substantially in measures of health and educational attainment, persistent and significant gender gaps remain in the areas of political and economic empowerment. For example, women today are three times less likely than men to hold leadership positions as legislators, senior officials or managers. According to the United Nations Office on Drugs and Crime, women and girls also account for 71 per cent of global human trafficking victims, most of whom are trafficked for the purpose of sexual exploitation.

In this light, Canada has been moving forward decisively on an agenda that advances gender equality and the empowerment of women and girls at home and abroad. This goal matters not only because promoting gender equality is the right thing to do, but because increasing evidence shows that the full participation of women and girls leads to more inclusive and sustainable results, whether in conflict resolution and peacebuilding, realizing the potential of trade agreements, or contributing to economic growth and development.

Supporting Gender Equality Around the World

Recent Actions

International Trade and Investment

- To help ensure that the benefits of international trade and investment are more widely shared, Canada achieved **gender provisions in modernized free trade agreements** with Chile and Israel, the Canada-United States-Mexico Agreement, and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership.
- The **Business Women in International Trade** program led three trade missions involving over 125 women-owned businesses and business support organizations.
- In multilateral forums like the UN and the G20, Canada works to advance women's economic empowerment, including upholding their right to own property and participate in the labour market, and improving access to finance and global value chains through initiatives such as the **Women Entrepreneurs Finance Initiative** (We-Fi).

Diplomacy

- At the 2018 G7 Charlevoix Summit, Canada created the **G7's first Gender Equality Advisory Council** and led G7 partners in committing to meaningful action to help improve the lives of women and girls around the world, including leveraging \$3.8 billion to support women's and girls' education in conflict, post-conflict and crisis situations.
- Underscoring the benefits of integrating a gender perspective in international affairs, Canada and the European Union co-hosted the world's first formal **Women Foreign Ministers' Meeting**.
- Canada's **diplomatic representation** has made substantial progress towards gender balance. In 2018, 48 per cent of heads of missions—ambassadors, high commissioners and consuls general—were women, up from 32 per cent in 2015.

Supporting Gender Equality Around the World

Peace and Security Operations

- To spur transformational change regarding women's meaningful participation in UN peace operations, Canada launched the **Elsie Initiative for Women in Peace Operations** and spearheaded the **G7 Women, Peace and Security Partnerships Initiative**.
- Budget 2018 invested \$20.3 million over five years to welcome an extra 1,000 vulnerable women and girls from various conflict zones around the world as **government-assisted refugees** in Canada.

International Development Assistance

- Through the **Women's Voice and Leadership Program**, Canada supports women's organizations and networks in over 30 developing countries, strengthening their ability to promote women's rights, women's empowerment, and gender equality.
- To catalyze new investments in support of women and girls in developing countries, Canada launched a new **Partnership for Gender Equality**, bringing together the Government of Canada, the philanthropic community, the private sector and civil society.
- To enable the fight against sexual and gender-based violence, including female genital mutilation, Canada launched the **Her Voice, Her Choice initiative**.

Supporting Gender Equality Around the World

Budget 2019 Actions

- Renewing **Canada's Middle East Strategy** to aid and reduce the vulnerability of conflict-affected populations, particularly women, girls and other vulnerable groups, and bolster the participation of women in the peace process in Syria and the reconciliation processes in Iraq.
- Increasing the World Bank's capacity to support the achievement of the **Sustainable Development Goals**.
- Supporting the implementation of Canada's Feminist International Assistance Policy through the **International Assistance Envelope** by investing an additional \$700 million in 2023–24.
- Announcing the Government's intention to develop a new, whole-of-government strategy to **combat human trafficking**.

GBA+ of Budget 2019

This year's budget is about investing in people—middle class Canadians who work, every day, to make the country a better place to live. It includes measures to ensure all Canadians have the tools they need to find good jobs and succeed in the economy of the future. It builds upon the Government's plan to grow the economy by addressing the changing nature of work and social challenges facing our country.

As the previous pages in this chapter illustrate, a great deal of work still needs to be done to narrow the gaps that exist not only between women and men, but also among historically underrepresented groups, such as Indigenous Peoples, visible minorities, and persons with disabilities. The diversity in Canadian society is a source of strength and a key driver of economic growth. Making policy decisions that help vulnerable Canadians learn new skills, participate in the economy, or improve their health and well-being leads to positive outcomes for everyone.

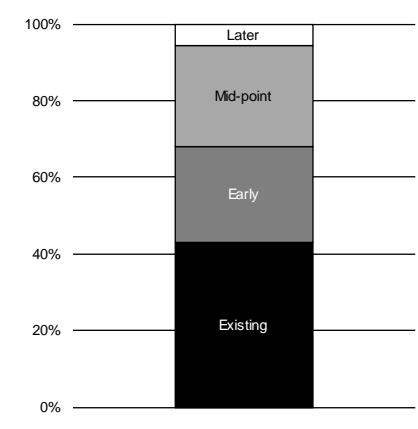
The Government's efforts to enrich the quality of GBA+ have continued since the first Gender Statement in 2017, supported by investments in Statistics Canada and the Department for Women and Gender Equality. Enhanced GBA+ training was given to public servants developing and analyzing budget proposals. To strengthen the consistency and comparability of GBA+, a common set of information was collected for all budget proposals.

While certain measures (e.g., personal income tax measures, transfers to individuals) lend themselves naturally to GBA+ because of the direct nature of the disaggregated data, many measures have impacts that are more diffuse—making GBA+ more challenging, but nonetheless important. The remainder of this chapter tells the story of Budget 2019 from a GBA+ perspective, focusing on impacts of the budget as a whole. This analysis is complemented by the comprehensive analysis of individual measures found in the GBA+ Annex.

Strengthening the GBA+ Process

High-quality GBA+ requires early attention and robust data to develop effective options and strategies for delivering programs and services to Canadians. For GBA+ to be most valuable, it is ideally built directly into the early stages of the policy development process. Based on the information provided by departments that developed budget proposals, for 66 per cent of Budget 2019 measures the GBA+ was performed early in the development phase or had been performed on the existing program. This early engagement suggests a clear effort by the whole of government to incorporate gender and diversity considerations early in the policy process, but obviously leaves room for further improvement.

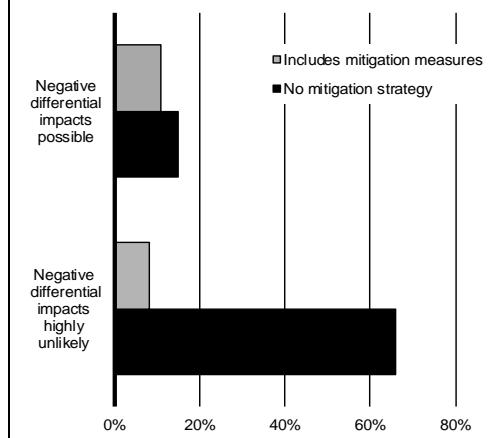
Chart 5.8
When the GBA+ Was Performed



For some measures, the results of analysis can reveal challenges or barriers that could constrain the proposed program's effectiveness for certain groups. In these instances, an important part of the GBA+ process is to develop specific approaches to mitigate these challenges and ensure the measure is available to as many Canadians as possible. Approximately 15 per cent of measures have identified the possibility of outcomes that could negatively impact some groups or perpetuate existing inequalities. For the majority of these measures, mitigation strategies have been developed to address possible negative differential impacts. A further 8 per cent of measures have proactively instituted approaches to minimize possible inequalities and help level the playing field, even where negative impacts are seen as highly unlikely. Establishing diversity policies, convening consultation groups or adjusting current processes to expand knowledge on the people impacted by the proposed program are some examples of proactive approaches.

Chart 5.9

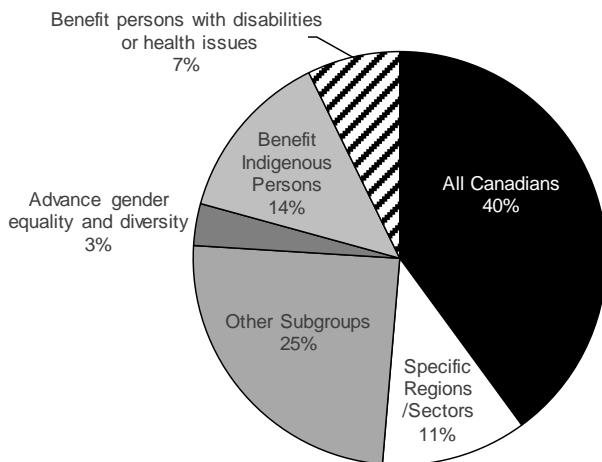
Measures With Mitigation Strategies



Target Population for Budget Measures

All Government programs and policies are aimed at improving welfare and strengthening Canada's economy and society. In some cases, these objectives are achieved through broad initiatives that are universally applied and seek to benefit all Canadians. In other cases, measures seek to help a specific group of the population, reflecting their particular challenges or opportunities. In Budget 2019, 86 measures, representing 40 per cent of the value of new budget measures, are intended to benefit all Canadians. An additional 83 measures, representing 49 per cent of the total value of new measures, were aimed at particular groups, and in a number of cases aimed at more than one of these groups. For example, implementing Jordan's Principle seeks to help First Nations children and has been counted as targeting both First Nations and youth. 29 measures representing 11 per cent of the value of new budget measures, are aimed at particular regions or sectors. This section highlights some of the specific groups benefitting from Budget 2019 measures.

Chart 5.10

[Value of Measures, by Target Group]

A Renewed Relationship With Indigenous Peoples

A number of measures in this budget are aimed at helping Indigenous Peoples. As discussed in Chapter 3, the Government has committed to chart a new path forward toward reconciliation and to renew the relationship between Canada and Indigenous Peoples. 24 measures in this budget are specifically aimed at helping First Nations, Inuit or Métis across a broad range of areas, including education, economic participation, and health and well-being. This includes the introduction of a variety of distinct post-secondary supports to help reduce the educational attainment gap, including a renewed and expanded First Nations Post-Secondary Student Support Program, and new ten year Inuit-led and Métis Nation-led post-secondary education strategies. Further investments are being made to increase labour market opportunities through Indigenous engagement on resource projects and support for First Nation and Inuit business development through the Community Opportunity Readiness Program. Budget 2019 also provides a number of investments in health and well-being, such as renewing and expanding the reach of the National Inuit Suicide Prevention Strategy, and implementing Jordan's Principle to ensure timely medical care for First Nations children. Additionally, further investments are being made to provide First Nations communities across the country with access to clean drinking water.

Helping Persons With Disabilities and Health Issues

20 measures in this budget are specifically targeted at helping persons with disabilities, including those with chronic health issues. As persons with disabilities are more likely to be unemployed, to live in poverty and to earn less than people without a disability, supporting accessibility in Canada helps to support individuals while growing the economy.

The Public Health Agency of Canada notes that 44 per cent of adults over 20 years of age have at least one of the ten most common chronic health conditions. Because they tend to live longer, studies show that women have a higher incidence than men of suffering from chronic disease, especially for some like dementia, arthritis or osteoporosis, where age is a major risk factor. Budget 2019 is making over \$2 billion over six years in targeted investments to improve the lives of Canadians with chronic health issues and to remove barriers experienced by persons with disabilities.

Key Measures Designed to Assist Persons With Disabilities and Health Issues

- \$15.0 million over five years to make Canada Student Loans more accessible by making it more flexible for vulnerable student loan borrowers, such as students with permanent disabilities.
- \$12 million to improve employment outcomes for persons with intellectual disabilities and Autism Spectrum Disorders.
- \$13.7 million over five years to help identify, remove and prevent technological barriers in federal government workplaces.
- \$25.8 million to support the production of accessible materials for persons with print disabilities.
- \$1.0 million to improve employment of persons with visual impairments.
- \$0.5 million towards innovation in accessible electronic payment terminals.
- Changes to allow the Registered Disability Savings Plan to remain open after a change in status for the Disability Tax Credit at an estimated cost of \$109 million, to better protect the long-term savings of persons with episodic disabilities.
- \$50 million over five years to support the implementation of a National Dementia Strategy.
- \$1.0 billion over two years to help Canadians with rare diseases access the drugs they need.
- \$25 million over five years to support a pan-Canadian suicide prevention service through 24/7 crisis support from trained responders.
- \$30.5 million for targeted measures to enhance the federal response to the Opioid crisis in Canada.
- Creating a pan-Canadian database for organ donation and transplantation

Supporting Youth

For the first time, the GBA+ measures in Budget 2019 include an increased focus on young people, providing almost \$6 billion across a range of measures specifically aimed at helping Canada's youth. Today's youth are more educated, connected and diverse than ever before, but they also face their own challenges. While living a digital life and being highly connected brings many benefits, it also raises new vulnerabilities, such as the potential for online exploitation and cyberbullying, and for exacerbating mental health challenges. Evidence shows that girls, LGBTQ2+ and at-risk youth are most vulnerable to online exploitation, which is why this budget is making investments in raising awareness of online abuse and protecting some of the most vulnerable Canadians from harm. Boys, LGBTQ2+ (particularly transgender), and Indigenous youth face the highest rates of suicide. Investments in the Canada Suicide Prevention Service will facilitate access to around-the-clock crisis support from trained responders.

With the increased pace of globalization, automation and the application of artificial intelligence impacting the nature of employment, the Government understands that finding fulfilling full-time employment can be a challenge for today's youth. That's why Budget 2019 is modernizing the Youth Employment Strategy and making investments in the Student Work Placement Program so that youth can gain relevant experience and build networks upon which to grow their careers. The proposed expansion of the

Key Budget 2019 Measures Designed to Assist Youth

- \$1.7 billion in forgone revenue over five years, and \$375.9 million per year ongoing, to lower the interest rate on Canada Student Loans and make the first six months after a borrower exits post-secondary education interest-free.
- Up to \$314.8 million over the next five years, and \$83.8 million per year ongoing, to implement the Canada Service Corps as Canada's signature national youth service program.
- \$15.2 million over three years, starting in 2019-20, for an Indigenous youth pilot program delivered by Canadian Roots Exchange, to help ensure that the voices of First Nations, Inuit, and Métis youth are heard and to support Indigenous youth reconciliation initiatives.
- \$10 million over two years to support Let's Talk Science, engaging youth in science, technology, engineering and mathematics (STEM), introducing them to critical skills development opportunities, and opening doors to future studies and occupations.
- \$49.5 million over five years to launch a modernized Youth Employment Strategy that helps youth find jobs through a suite of supports tailored to their needs.
- \$798.2 million over five years to invest in work-integrated learning by expanding the Student Work Placement Program, investing in additional placement opportunities, and partnering with the Business/Higher Education Roundtable to support up to 84,000 new work placements per year by 2023-24 for post-secondary students across Canada.
- \$147.9 million over five years, and \$8.0 million per year ongoing, to implement Canada's new International Education Strategy.
- \$38 million over five years to Futurpreneur Canada to support the next generation of entrepreneurs.

Canada Service Corps will create opportunities for youth to gain skills and leadership experience while making a meaningful difference in their communities.

Budget 2019 is also taking steps to address the hurdle of homeownership that many young people face today. Through changes to the Home Buyers' Plan and the introduction of the new Shared Equity Mortgage Program, first-time home buyers have more options to leverage for purchasing their first home.

Major Beneficiaries

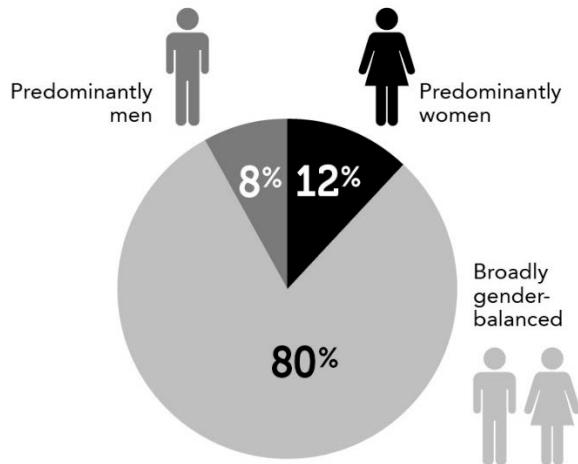
This section focuses on what GBA+ revealed about the benefits of Budget 2019 measures. While a policy objective might target a certain population, or Canadians as a whole, all measures carry impacts, whether direct or indirect, short or long term. For example, the Rental Construction Financing Initiative will directly benefit modest and middle income individuals and families in urban areas, but indirect benefits will go to those building the rental units in the construction industry.

Indirect benefits are defined here as a second-order outcome. Examples include benefits realized by the group delivering the initiative or providing goods or services to those receiving the direct benefits, or by those benefitting from a connection with the direct beneficiaries (e.g., family members or individuals in the same region).

Gender

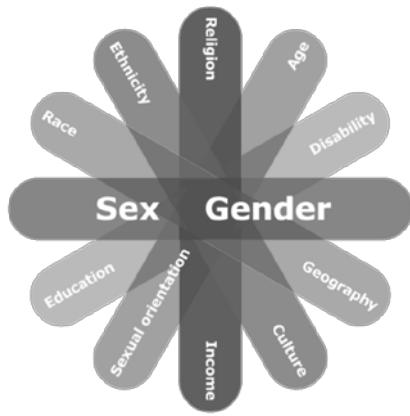
The majority of measures in this budget carry direct benefits that are expected to be broadly felt by women and men in equal proportions, while others carry benefits that are likely to affect women or men differently. For 80 per cent of the value measures, the benefitting group was seen as broadly gender-balanced, while men or women were disproportionately represented in the benefitting group for 8 and 12 per cent of measures, respectively. This reflects the fact that men and women tend to participate in different sectors of the workforce, have different income levels, play different roles within a family and are unequally vulnerable to different challenges.

Figure 4: Percentage of Measures, by Direct Benefits



For example, although fathers are increasingly spending more time on child care, mothers still tend to serve as the primary caregivers within families. Consequently, while it is expected that some men will benefit from measures such as the new interest-free and payment-free medical and parental leave for student loan borrowers, and extending parental leave for graduate students, the majority of benefits from these initiatives are expected to be felt by women. Similarly, initiatives such as the increasing efforts to combat child sexual exploitation online and the implementation of a National Dementia Strategy will mostly improve the health and safety of women due to their risk factors being higher than those of men.

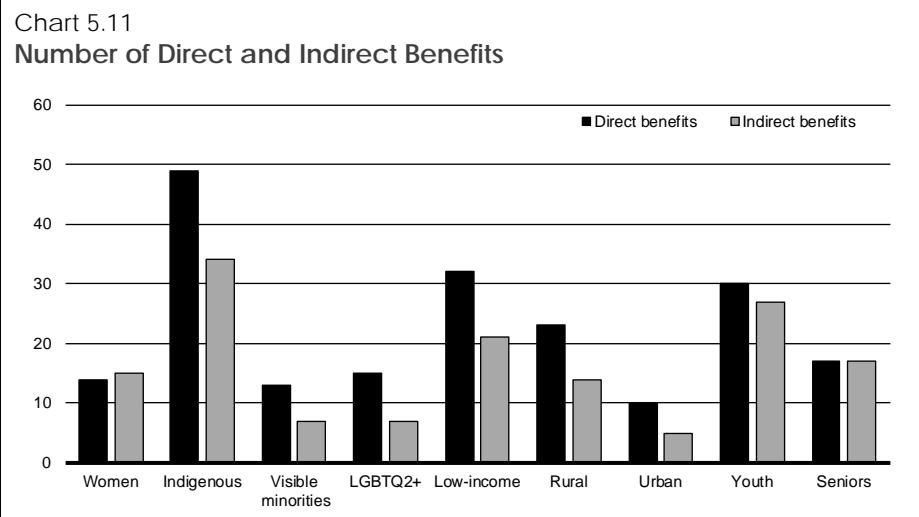
Conversely, measures like the Veteran Second Centre of Excellence will help all veterans, the majority of whom are men. Although measures like enhancing federal support for apprenticeships and investments in infrastructure would tend to directly or indirectly benefit men, the Government has taken a number of steps both in Budget 2019 and in previous budgets to encourage women to participate in apprenticeships and work in the construction trades.



Demographics

While Canadians may share a common set of values, we all come from different backgrounds and experiences. The “plus” in GBA+ acknowledges that GBA goes beyond biological (sex) and socio-cultural (gender) differences to look at the intersecting identities that every individual holds, like race, ethnicity, religion, age and mental or physical disability. This idea of intersectionality was analyzed across budget measures, in terms of direct and indirect benefits that were expected to be seen by various subgroups of women and men.

The chart below shows the number of measures that were identified as carrying notable benefits for specific groups of Canadians (i.e., beyond their representation in the overall population). Since many budget measures carry benefits for more than one group, these numbers overlap across categories. For example, a measure like the National Dementia Strategy will benefit those who are at greater risk of developing dementia. Since early detection and awareness is a key element of the strategy, seniors, women, Indigenous communities and Canadians living in rural areas are most likely to feel the direct benefits from this measure as they have higher risk factors.



Visible Minority Communities

Visible minorities represent a growing share of the population who continue to be an important driver of Canada's social fabric and economy. Whether they are asylum seekers, immigrants or Canadian-born, the systemic barriers and challenges faced by visible minorities are as diverse as their backgrounds.

It is estimated that men from visible minority groups are 24 per cent more likely to be unemployed than men from non-racialized groups. Visible minority women are 48 per cent more likely to be unemployed than, and earn 55.6 per cent of the income of non-visible minority men. With respect to social participation, approximately 1 in 5 visible minority respondents to the 2014 General Social Survey reported feeling discrimination or unfair treatment in the five years preceding the survey. Sixty-three per cent of these respondents believed it was based on their race or skin colour.

The need for federal actions aimed at addressing systemic barriers faced by visible minority communities, along with the need for better and more disaggregated data on these issues, stems from a number of key recommendations over the last few years, notably by the Standing Committee on Canadian Heritage and the United Nations Committee on the Elimination of Racial Discrimination. Budget 2018 provided \$6.5 million over five years, starting in 2018–19, to create a new Centre for Gender, Diversity and Inclusion Statistics which, among other things, will collect, analyze and disseminate data on visible minorities to understand the barriers different groups face and how best to support them.

15 measures in Budget 2019 were identified as benefitting visible minority communities including initiatives such as the new Anti-Racism Strategy, as well as the Global Talent Stream, Multiculturalism and Interim Federal Health programs.

Key Budget 2019 Measures Benefitting [Newcomers and] Visible Minority Groups

- \$45 million over three years for the Multiculturalism Program and to develop and implement a new federal Anti-Racism Strategy.
- \$25 million over five years for projects and capital assistance that support Black Canadian communities.
- \$35.2 million over five years, and \$7.44 million per year ongoing, to make permanent the Global Talent Stream pilot project and ensure that Canadian employers have access to the global talent they need to grow their businesses and create good jobs for Canadians.
- \$283.1 million over two years to ensure refugees and other eligible claimants have access to temporary health coverage under the Interim Federal Health Program.

Rural Communities

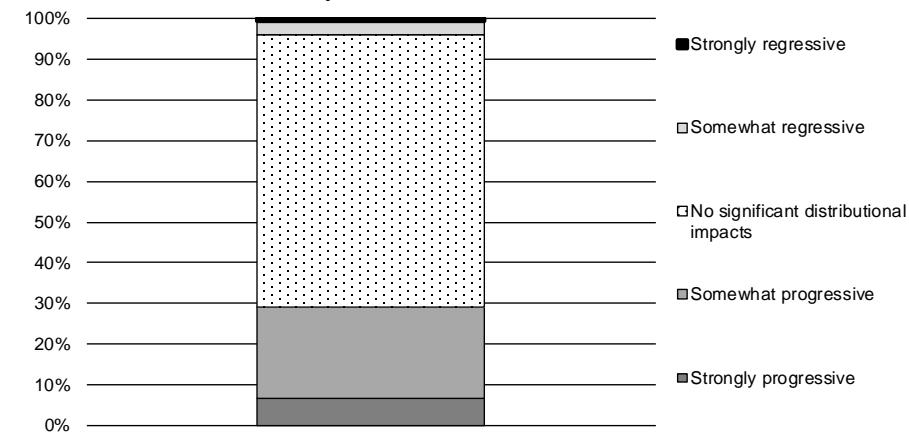
Rural and remote communities are essential to Canada's economic success and social landscape, but face a unique set of challenges, such as lack of connectivity, lack of employment diversity, population decline, out-migration of youth, lower availability and quality of services (e.g., health care), declining infrastructure and lower educational attainment. Budget 2019 has more than 20 measures that provide direct benefits to rural and remote populations including the initiatives supporting the new Arctic and Northern Policy Framework, the creation of a Canadian Experiences Fund supporting Canada's tourism sector, new investments in the Connect to Innovate program and introduction of the Government's new the Universal Broadband Fund.

Income Distributional Impacts

Each measure in Budget 2019 was also evaluated with respect to how it affected Canadians at different income levels. Budget 2019 proposes a number of measures with progressive impacts (benefitting lower-income Canadians), such as lowering the interest rate on Canada Student Loans and proactively enrolling seniors age 70 and over for the Canada Pension Plan (CPP) but who have not yet applied. Other initiatives have characteristics that make them more likely to be utilized by higher-income Canadians, such as changes to the Home Buyers' Plan.

Chart 5.12

Income Distributional Impacts

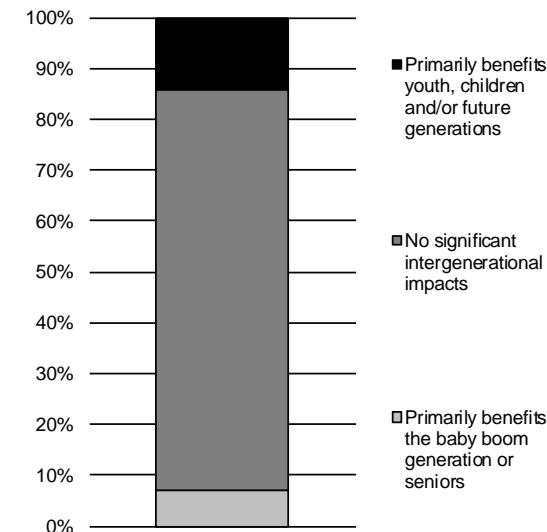


Intergenerational Impacts

In conducting the GBA+, broad consideration was given to how a measure may affect different generations of Canadians. In large numbers of cases, measures impacted generations equally; however, certain Budget 2019 measures primarily provided disproportionate benefits to seniors or to youth. Proactive CPP enrollment will help seniors, enhancing the Guaranteed Income Supplement earnings exemption will tend to benefit low-income working baby boomers, and those at risk of developing dementia will be helped through the National Dementia

Strategy. A significant number of measures will also help today's young people and future generations. For example, the lower interest rates on Canada Student Loans will make post-secondary education more affordable for youth and help them transition successfully to the labour market after their studies. Through the Student Work Placement Program, post-secondary education students across Canada, including vulnerable students and those from underrepresented groups will have access to more on-the-job learning opportunities, following their career aspirations. Children and future generations will also benefit from measures intended to fight climate change, such as investments in clean technologies, carbon pollution pricing and zero-emission vehicles.

Chart 5.13
Intergenerational Impacts



ANNEX 1

Economic and Fiscal Outlook

Introduction

In a challenging global economic environment, Canada's economy remains sound. Targeted investments in the middle class and strong economic fundamentals have contributed to strong job creation and resulted in an unemployment rate that has reached its lowest levels in more than four decades (Chart A1.1).

Since November 2015, the hard work of Canadians has helped to create over 900,000 jobs. In 2018, there were more Canadians employed, as a share of the working-age population, than at any moment in Canada's history. Underlying this strong performance have been strong employment gains by women, with the pace of job gains for women more than doubling since November 2015, compared to the previous three-year period.

In recent months, the outlook for global growth has become more uncertain and financial market volatility has risen. From a global perspective, economic activity is estimated to have peaked earlier in 2018, with momentum slowing somewhat more than expected since that time. At home, a more uncertain global economic environment, lower oil prices and higher interest rates have also contributed to softer economic growth at the end of 2018.

Despite these challenges, Canada began 2019 with the strongest two-month stretch of job creation since 2012. The economy is expected to strengthen over the second half of 2019, and to remain among the leaders for economic growth in the Group of Seven (G7) in both 2019 and 2020.

Canada's trade advantage is also expected to pay dividends in the coming years. With the successful conclusion of the new NAFTA—the Canada-United States-Mexico Agreement—as well as the Canada-European Union Comprehensive Economic and Trade Agreement (CETA) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), Canada is now the only G7 country to have free trade agreements with all other G7 nations, and now has comprehensive free trade agreements with countries representing nearly two-thirds of the world's total gross domestic product (GDP).

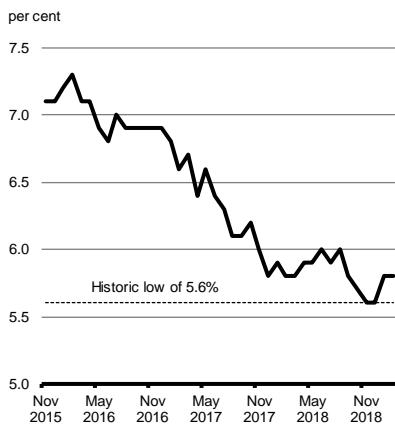
This trade strength, combined with new tax incentives to encourage businesses to accelerate investment in capital goods, will support a strengthening in business investment in Canada going forward.

At the same time, it is clear that there is more work to be done to ensure that the middle class and people working hard to join it are able to share in Canada's economic success. The Government's commitment to investing in the middle class continues.

Canada to remain a G7 leader in economic growth this year and next

Chart A1.1

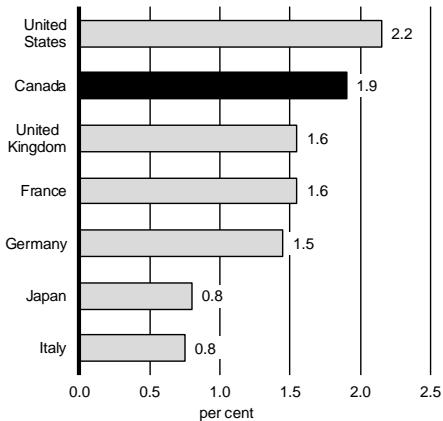
Unemployment Rate



Note: Last data point is February 2019.

Source: Statistics Canada.

Projected Average Real GDP Growth for the G7 for 2019 and 2020



Sources: International Monetary Fund (IMF),
January 2019 *World Economic Outlook (WEO)*
Update; Department of Finance
Canada calculations.

Recent Economic Developments

Global economic expansion is moderating

For the past two years, global economic activity has been strong and broad-based across most regions of the world. This has helped push the unemployment rate among Organisation for Economic Co-operation and Development (OECD) countries to its lowest level since 1980.

The International Monetary Fund (IMF) estimates that the global economy grew by 3.7 per cent in 2018, largely reflecting growth seen in emerging economies (Chart A1.2). However, it is likely that global growth peaked in 2018, as business activity has slowed in virtually all major advanced economies.

A shift to a slower pace of global economic activity was expected. However, growth slowed more than anticipated in Europe in the second half of 2018, with Germany's economy registering virtually no growth and Italy entering a technical recession (i.e., two consecutive quarters of contraction in real GDP).

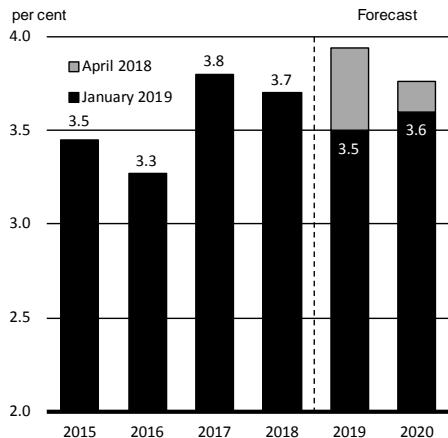
In the United Kingdom, where uncertainty over the country's planned exit from the European Union has prevailed, economic growth slowed markedly at the end of 2018. Meanwhile, a number of recent indicators for China and other emerging economies have underperformed, potentially signalling weaker-than-expected economic momentum in these regions as well.

Taken together, many of these developments contributed to the IMF marking down its latest outlook for global growth. It now projects that global growth will slow to about 3.5 per cent in both 2019 and 2020, down from average annual growth of 3.8 per cent in the past two years.

Moderation in the outlook for global growth was expected, but may be happening more quickly than anticipated

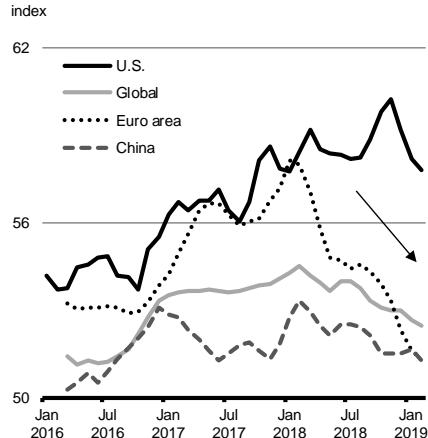
Chart A1.2

IMF Outlook of Global Real GDP Growth



Sources: January 2019 IMF WEO Update; April 2018 WEO.

Global Indexes of Business Activity



Notes: A reading above/below 50 indicates expansion/contraction in business activity over the past month as reported by surveyed purchasing managers. Data are based on three-month moving averages. Last data point is February 2019.

Sources: IHS Markit; Haver Analytics; Bloomberg; Department of Finance Canada calculations.

In the U.S., the pace of economic growth is expected to moderate to 2.4 per cent in 2019 (compared to 2.9 per cent in 2018), and to 1.7 per cent in 2020, in part reflecting waning fiscal stimulus. However, a number of the factors that underpinned U.S. growth in 2018 are expected to carry forward into 2019, including job and wage gains, which will continue to support consumption growth.

Global growth concerns contributed to increased market volatility at the end of 2018

Slowing global economic growth, combined with policy uncertainty related to the U.S. government shutdown and ongoing tensions between China and the U.S., led to a drop in business and consumer confidence at the end of 2018. These factors, along with lower expectations for corporate earnings, translated into increased financial market volatility. The result was sharply lower global equity valuations, declining government bond yields and a moderate rise in corporate credit spreads, as markets began to reprice these developments.

In addition, over the past year, the evolution of some financial indicators has raised concerns about the prospects for future growth. In particular, the flattening of the U.S. yield curve, which has been associated with impending recessions in the past, has exacerbated concerns over the current expansion.

Since the end of 2018, the performance of global equities has improved and other financial conditions have eased. This includes a rise in U.S. equities after the Federal Reserve signalled a more patient approach to further monetary policy normalization amid slowing external demand and market volatility.

Canada's economy remains strong, focus on middle class growth remains essential

Canada faces the current environment of global uncertainty and softer economic growth at the end of 2018 from a position of strength. Canada led the G7 in growth in 2017 and was second only to the U.S. in 2018. Going forward, the IMF expects growth in Canada to remain among the leaders in the G7 in both 2019 and 2020.

Labour market conditions are at their strongest in decades. Throughout 2018, another year of solid employment gains left the unemployment rate at its lowest levels in over 40 years. Since November 2015, the hard work of Canadians has created over 900,000 jobs. About three-quarters of these new jobs have been full-time positions; in 2018 alone, all employment gains were full-time positions.

Underlying Canada's strong employment growth have been strong gains by women, with the pace of job gains for women more than doubling since November 2015, compared to the previous three-year period. This contributed to lifting the share of working-age Canadians who are employed to a record high in 2018 (Chart A1.3). It is also helping to offset the pressures of an aging population, which is weighing on the overall employment-to-population ratio.

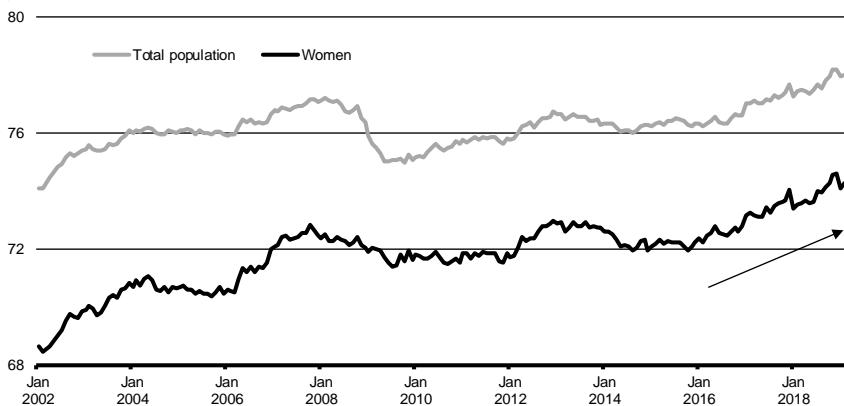
Recent improvements in employment have also been shared among groups of Canadians who are often underrepresented in the labour market. These include recent immigrants, single mothers, Indigenous Peoples living off-reserve, youth and individuals with lower educational attainment. Today, the share of working-age Canadians who are employed is close to or higher than its pre-recession level for most of these underrepresented groups.

Continued employment gains lifted the share of working-age Canadians who are employed to a record high in 2018

Chart A1.3

Share of Working-Age Canadians Employed

per cent



Notes: Working-age is defined as 25-64 years old. Last data point is February 2019.

Sources: Statistics Canada; Department of Finance Canada calculations.

Amid strong labour market conditions, a relatively high number of employers in the Bank of Canada's latest *Business Outlook Survey* continued to report labour shortages, indicating that they continue to struggle to find the people they need to grow their businesses and meet rising demand. These tight conditions contributed to an upturn in wage growth in 2017, and supported another solid gain in 2018—among the fastest paces of growth witnessed in the past eight years.

In oil-producing provinces—Alberta, Saskatchewan and Newfoundland and Labrador—wage growth notably softened over the second half of 2018, pulling down the national average. Overall, employment and wage growth in these provinces continues to be affected by the lasting effects of lower world oil prices.

Encouragingly, employment in both Alberta and Saskatchewan increased in 2018 across a number of industries, including the sub-sector linked to oil and gas extraction. However, unemployment rates in these provinces remain well above levels seen before the significant decline in oil prices that began in mid-2014.

Focus: Canada's newcomers are ready to work and help grow the economy

In 2018, Canada's population grew by 1.4 per cent—the strongest showing in almost three decades. The welcoming of a growing number of immigrants has played an important role in driving Canada's strong population growth.

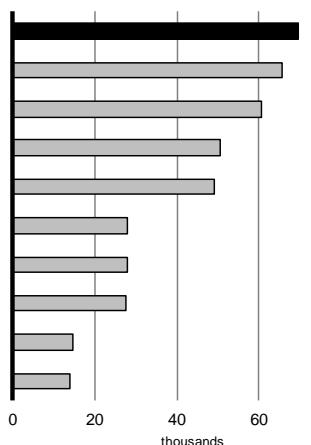
Historically, Canada has relied on newcomers as a key source of population and economic growth. On a net basis, international migration accounted for about 70 per cent of Canada's population growth over the past two decades and close to 80 per cent of total population growth in 2018.

As the Canadian population ages, projections show that the contribution of immigration to Canada's population growth will increase rapidly in the next few years. Without immigration, Canada's population would start to decline in slightly more than a decade, and real GDP growth would slow to about 1 per cent per year. Attracting talented workers from around the world will be essential to help grow our economy and improve the living standards for all Canadians.

The economic benefits of immigration depend on how well newcomers integrate into the labour market. Canada is doing well in this regard with the highest entry of immigrants ready and able to work among OECD countries (Chart A1.4). Furthermore, newcomers to Canada have steadily improved their integration into the labour market over the past three years. Canada's approach to gradually increasing immigration levels—both to support Canada's labour market needs and to provide assistance to refugees and support family reunification—has helped new Canadians smoothly integrate into the labour market and supported businesses and communities across the country.

Chart A1.4

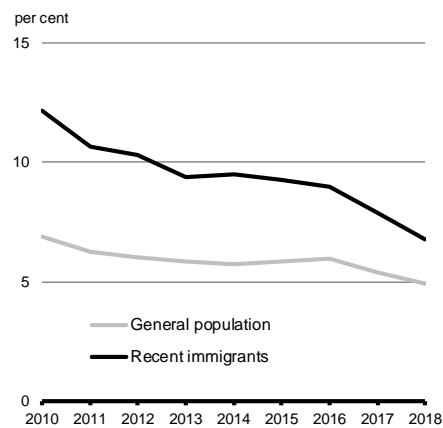
**Admissions of Work-Ready Immigrants,
Top 10 OECD Countries in 2016**



Notes: Annual admissions for permanent residence under the "economic category, principal applicants". Numbers do not include the accompanying family of the principal applicants in the economic category.

Sources: Statistics Canada; OECD, International Migration Outlook 2018.

**Unemployment Rates
(Population Aged 25-54)**



Note: Recent immigrants are those who landed in the previous 10 years.

Source: Statistics Canada.

Household spending has cooled, and housing markets are more balanced

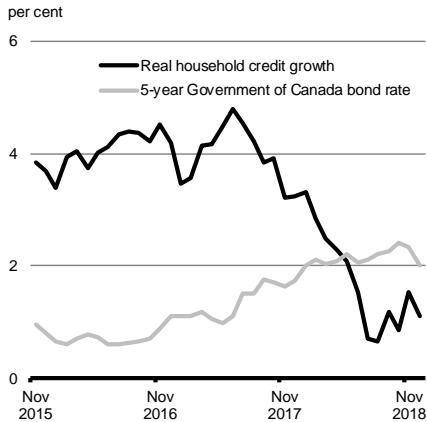
The Canadian economy grew roughly 2 per cent in 2018, in line with the economy's long-term, potential pace of growth and consistent with an economy and labour market operating close to capacity.

Across the country, households are adjusting to overheating in some regional housing markets, higher interest rates and mortgage regulation changes. In turn, household credit growth has eased to more sustainable levels (Chart A1.5).

A gradual rise in interest rates has contributed to slower household credit growth and cooled household spending growth

Chart A1.5

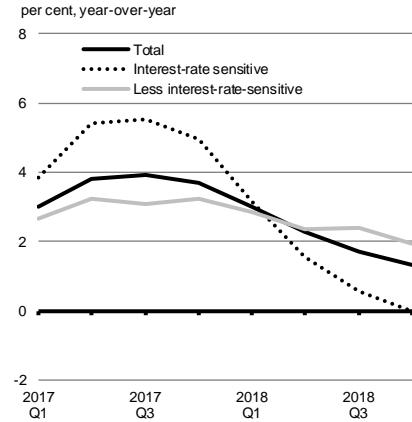
Real Household Credit Growth and Interest Rates



Notes: Last data point is December 2018. Real household credit growth is calculated on a year-over-year basis.

Sources: Bank of Canada; Statistics Canada; Department of Finance Canada calculations.

Real Household Consumption Growth



Notes: Last data point is 2018Q4. Interest-rate-sensitive components of consumption include items such as expenditures on vehicles, communications, furniture, accommodation services and dwelling maintenance. Less interest-rate-sensitive components of consumption include items such as expenditures on recreation and culture, clothing, insurance and finance, education and health.

Sources: Bank of Canada; Statistics Canada; Department of Finance Canada calculations.

Following the overheating that occurred in 2016 and 2017 in the Toronto and Vancouver housing markets, sales have moderated and price growth has softened (Chart A1.6).

Housing markets are undergoing an orderly correction, though affordability challenges remain in Toronto and Vancouver

Chart A1.6

Evolution of House Prices by Market

index, Jan 2014 = 100

220

— Vancouver

— Toronto

····· Montréal

- - - - - Calgary

180

160

140

100

60

Jan Jul Jan Jul Jan Jul Jan Jul Jan Jul Jan
2014 2014 2015 2015 2016 2016 2017 2017 2018 2018 2019

Notes: Composite MLS House Price Index by city, seasonally adjusted. Last data point is January 2019.

Sources: Canadian Real Estate Association; Department of Finance Canada calculations.

The fundamentals remain supportive of business investment

Building on improved momentum since the end of 2016, business investment grew for a second consecutive year in 2018, reflecting growth outside of the oil and gas industry (Chart A1.7).

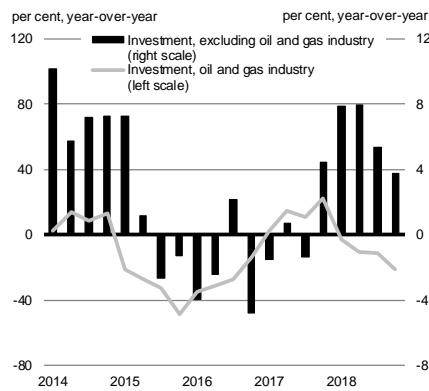
In recent quarters, business investment has moderated amid slowing global economic activity and trade, and heightened uncertainty over the global growth outlook. Business investment in Canada is expected to improve going forward, supported by continued gains in domestic and foreign demand. The signing of new and modernized trade agreements, including the new NAFTA—the Canada-United States-Mexico Agreement—and new tax incentives proposed in the 2018 *Fall Economic Statement* to encourage businesses to accelerate investment in capital goods, including the Accelerated Investment Incentive, also support this outlook.

At the same time, Canada's attractiveness as a place to do business is evidenced by year-to-date flows of foreign direct investment (FDI) to Canada in 2018. For this period, Canada was the only G7 country to witness a material improvement in foreign direct investment into the country. For the same period, foreign direct investment inflows worldwide declined by roughly 25 per cent.

Business investment increased outside of the oil and gas industry in 2018, while foreign direct investment flows to Canada have improved recently

Chart A1.7

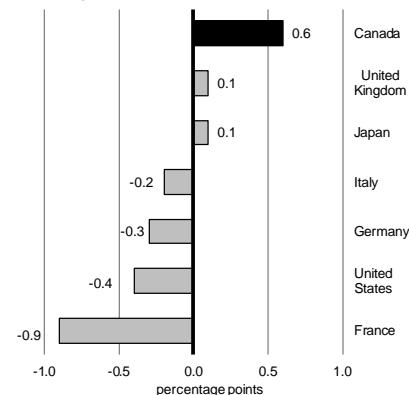
Capital Expenditure Growth in the Non-Oil and Gas and Oil and Gas Industries



Note: Last data point is 2018Q4.

Sources: Statistics Canada; Department of Finance Canada calculations.

Change in Foreign Direct Investment Inflows as a Share of GDP, year-to-date in 2018



Notes: Data on FDI flows and GDP for 2017 and 2018 cover the period Q1 to Q3. Data for 2018Q4 for all countries are not yet available.

Sources: OECD; Department of Finance Canada calculations.

Export growth continues to be led by energy and services

In recent years, modest increases in total real exports have been driven in large part by exports of energy commodities and services (Chart A1.8). Meanwhile, despite a recent uptick, non-energy exports have grown little over the last two years.

Going forward, exports will continue to be supported by rising foreign demand and a weak Canadian dollar. However, ongoing trade policy uncertainties will continue to act as headwinds to Canada's export performance.

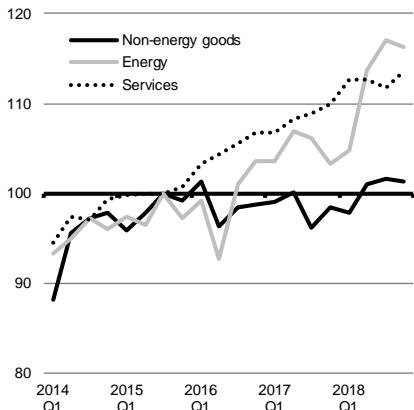
Encouragingly, recent data suggests that growth in exports to non-U.S. markets—particularly for those directed to European countries—has outpaced growth in exports to the U.S. This development is supported by the coming into force of the Canada-European Union Comprehensive Economic and Trade Agreement. Further diversification will be supported by the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, which entered into force on December 30, 2018.

Non-energy goods exports have improved recently, but have grown little over the last two years

Chart A1.8

Canada's Real Exports: Energy, Services and Non-Energy Goods

index, 2015Q3 = 100



Notes: Energy goods include crude oil, natural gas, refined petroleum products, electricity and coal. Last data point is 2018Q4.

Sources: Statistics Canada; Department of Finance Canada calculations.

Canada's Nominal Exports to the U.S. and Other Countries

index, 2015Q3 = 100



Note: Last data point is 2018Q4.

Sources: Statistics Canada; Department of Finance Canada calculations.

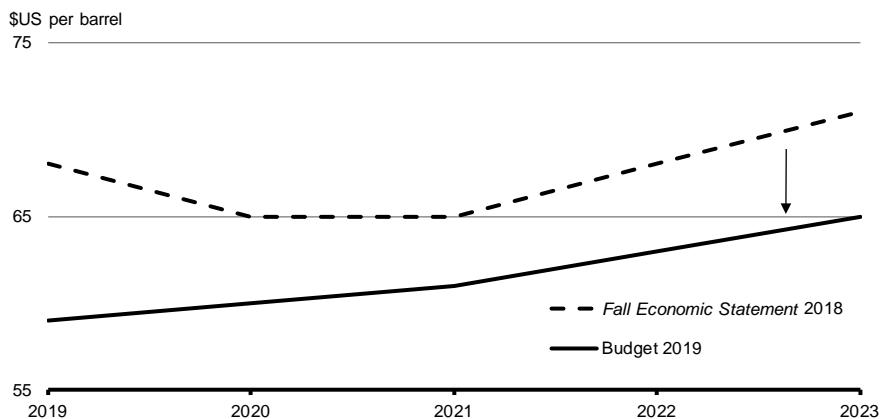
Lower global oil prices are dampening growth

In early October, major world oil benchmark prices began to drop after hitting their highest levels in nearly four years. The decline has largely been attributed to surging oil output in the U.S., along with weaker-than-expected enforcement of U.S. sanctions against Iran and expectations of slower global growth. The price of West Texas Intermediate (WTI) crude oil has recently improved to about US\$55 per barrel—but remains roughly 25 per cent below its early-October peak, and well below expectations in the 2018 Fall Economic Statement (Chart A1.9).

The outlook for world oil prices remains very uncertain. On the one hand, crude oil supply, particularly out of the U.S., could continue to exceed expectations. This would exert further downward pressure on world prices. On the other hand, there remains uncertainty around supply and export patterns from Organization of Petroleum Exporting Countries members and their allies, as well as around the balance of world oil markets in a context of ongoing tensions involving both major importers and exporters of crude oil.

Crude oil prices have fallen below expectations outlined in the 2018 *Fall Economic Statement* and remain vulnerable to world market developments

**Chart A1.9
Outlooks of the WTI Price of Crude Oil**



Sources: Department of Finance Canada September 2018 and February 2019 surveys of private sector economists.

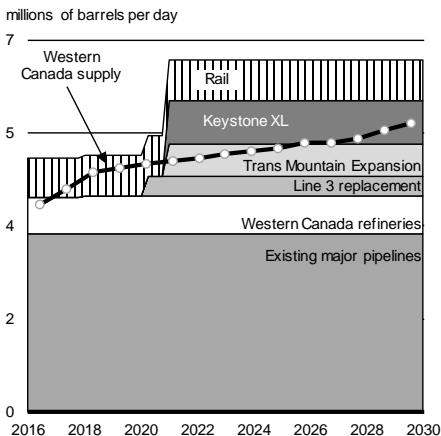
Canadian energy producers face additional volatility in Canadian oil prices, reflecting ongoing production growth amid constrained transportation capacity. Since 2017, the growing supply of crude oil from Western Canada has exceeded available export pipeline infrastructure and the region's refining capacity (Chart A1.10). As a result, record levels of crude oil have been transported by rail, increasing average transportation costs and putting increased pressure on the rail network running out of the region.

Despite government and industry efforts to increase capacity, it has not kept pace with supply growth, exerting downward pressure on crude oil benchmarks priced in Western Canada in 2018. This situation was exacerbated in the fall, when temporary refinery shutdowns in the U.S. Midwest disrupted the largest market for crude oil from Western Canada and sent several Canadian crude oil benchmarks to historically low levels.

Since 2017, the growing supply of crude oil from Western Canada has exceeded available export pipeline infrastructure and the region's refining capacity

Chart A1.10

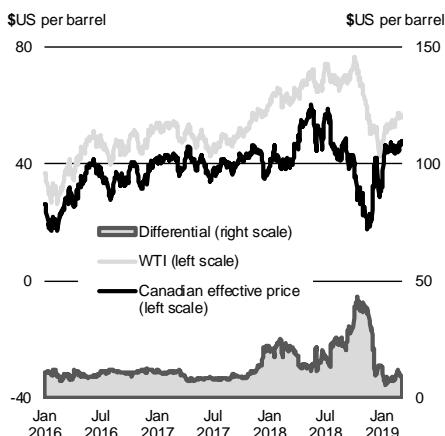
Crude Oil Supply¹ Versus Transportation and Refining Capacity in Western Canada



¹ Western Canada supply is based on total projected blended supply to trunk pipelines and markets. Pipeline capacity is adjusted for factors such as the type of crude moved, operational downtime, downstream constraints, capacity used for refined petroleum products, and capacity used for Bakken oil. Rail capacity is based on the capacity of existing Western Canada rail uploading terminals with a capacity above 15,000 barrels per day.

Sources: Canadian Association of Petroleum Producers; company statements.

WTI and Canadian Effective Price for Crude Oil



Notes: Canadian effective price is the export-weighted composite of Canadian Light Sweet, Western Canada Select (the benchmarks for Western Canadian light and heavy crude oil, respectively) and Brent (the benchmark for Newfoundland and Labrador light crude oil). Last data point is March 8, 2019.

Sources: Bloomberg; Department of Finance Canada calculations.

Recently, Canadian benchmark prices have improved substantially after the refineries in the U.S. Midwest resumed normal operations and the Alberta government's December announcement that it would begin to temporarily curtail oil production at the start of 2019. However, Canadian crude oil prices are expected to remain vulnerable to disruptions on a pressured export transportation network and to adverse supply or demand developments. This situation is expected to persist until one or more new major pipelines come on stream.

Budget 2019 Economic Outlook

The economic outlook has been revised moderately down since the *2018 Fall Economic Statement*

The average of private sector forecasts has been used as the basis for fiscal planning since 1994 and introduces an element of independence into the Government's economic and fiscal forecast. The Budget 2019 economic forecast presented in this section is based on a survey conducted in February 2019.

Reflecting expectations of slightly weaker economic growth in late 2018 and early 2019, the private sector economists have lowered their forecast for real GDP growth in 2019, to 1.8 per cent from 1.9 per cent anticipated in the *2018 Fall Economic Statement* (Table A1.1). Over the five-year projection period, real GDP growth is expected to average 1.8 per cent—unchanged compared to the *2018 Fall Economic Statement*.

The outlook for GDP inflation (the broadest measure of economy-wide inflation) has been revised down in 2019 to 1.6 per cent, compared to 2.0 per cent in the *2018 Fall Economic Statement*, mainly reflecting terms of trade impacts of lower forecasted crude oil prices. As a result, the level of nominal GDP (the broadest measure of the tax base) is lower by an average of about \$12 billion per year over the forecast horizon compared to the *2018 Fall Economic Statement*.

Table A1.1
Average Private Sector Forecasts
per cent, unless otherwise indicated

	2018	2019	2020	2021	2022	2023	2018-2023
Real GDP growth¹							
Budget 2018	2.1	1.6	1.7	1.6	1.8	-	-
2018 Fall Economic Statement	1.9	1.9	1.6	1.6	1.9	1.9	1.8
Budget 2019	1.9	1.8	1.6	1.7	1.9	1.9	1.8
GDP inflation¹							
Budget 2018	2.0	1.9	2.0	2.0	1.9	-	-
2018 Fall Economic Statement	2.0	2.0	1.7	2.0	2.0	2.0	2.0
Budget 2019	1.9	1.6	1.9	2.0	2.0	2.0	1.9
Nominal GDP growth¹							
Budget 2018	4.1	3.5	3.8	3.6	3.8	-	-
2018 Fall Economic Statement	3.9	4.0	3.3	3.7	4.0	3.9	3.8
Budget 2019	3.8	3.4	3.5	3.7	3.9	4.0	3.7
Nominal GDP level¹ (billions of dollars)							
Budget 2018	2,229	2,307	2,395	2,482	2,576	-	-
2018 Fall Economic Statement	2,226	2,314	2,391	2,479	2,578	2,679	-
Budget 2019	2,223	2,298	2,379	2,467	2,564	2,667	-
Difference between Budget 2018 and Budget 2019	-6	-9	-16	-15	-12	-	-
Difference between 2018 Fall Economic Statement and Budget 2019	-3	-16	-12	-13	-14	-13	-12

¹ Figures have been restated to reflect the historical revisions to the Canadian System of National Accounts, released on March 1st, 2019.

Sources: For Budget 2018, Department of Finance Canada December 2017 survey of private sector economists; for the 2018 Fall Economic Statement, September 2018 survey of private sector economists; and for Budget 2019, February 2019 survey of private sector economists.

Budget 2019 Fiscal Outlook

The Government continues to manage deficits carefully while delivering real results that grow the economy, create jobs and improve the quality of life for the middle class and people working hard to join it.

In Budget 2019, the Government of Canada is introducing new investments to support workers, strengthen income security of seniors, bolster the health of Canadians and improve housing affordability, while maintaining the debt-to-GDP ratio on a downward track and protecting the long-term fiscal sustainability of Canada's economy.

Table A1.2 outlines the fiscal impact of economic and fiscal developments since the 2018 Fall Economic Statement, including the cost of new measures announced in this budget.

Notably, 2018–19 monthly fiscal results have been better than expected since the 2018 Fall Economic Statement. The stronger-than-expected 2018–19 monthly fiscal results are primarily driven by higher income tax revenues, reflecting a strong labour market and higher corporate profits. The impact of the 2018–19 results partially carries forward over the forecast horizon, which more than offsets the impact of the downward revision to the economic growth outlook provided by private sector economists. Details of the Budget 2019 fiscal outlook are provided in Annex 2.

Table A1.2

**Economic and Fiscal Developments since the 2018 Fall Economic Statement
(FES 2018) and Investments Included in Budget 2019**
billions of dollars

	Projection					
	2018– 2019	2019– 2020	2020– 2021	2021– 2022	2022– 2023	2023– 2024
FES 2018 budgetary balance¹	-18.1	-19.6	-18.1	-15.1	-12.6	-11.4
Adjustment for risk from FES 2018	3.0	3.0	3.0	3.0	3.0	3.0
FES 2018 budgetary balance (without risk adjustment)	-15.1	-16.6	-15.1	-12.1	-9.6	-8.4
Economic and fiscal developments since FES 2018	5.9	4.8	4.7	3.7	4.1	4.6
Revised balance before policy actions and investments	-9.3	-11.9	-10.4	-8.4	-5.5	-3.9
Policy actions since FES 2018 ²	-1.4	-1.0	-0.6	-0.6	-0.2	-0.2
Investments in Budget 2019						
Investing in the Middle Class	0.0	-0.6	-1.3	-1.8	-2.3	-2.4
Building a Better Canada	-3.2	-0.3	-0.8	-0.8	-0.6	-0.4
Advancing Reconciliation	-0.9	-0.7	-1.0	-1.0	-0.6	-0.6
Delivering Real Change	-0.1	-1.7	-1.6	-0.8	-0.5	-0.6
Other Budget 2019 investments ³	0.0	-0.7	-0.9	1.6	0.6	1.2
Total investments in Budget 2019	-4.2	-4.0	-5.7	-2.7	-3.4	-2.8
Total policy actions and investments since FES 2018	-5.6	-5.0	-6.3	-3.3	-3.6	-2.9
Budgetary balance	-14.9	-16.8	-16.7	-11.8	-9.1	-6.8
Adjustment for risk						
Final budgetary balance (with risk adjustment)	-14.9	-19.8	-19.7	-14.8	-12.1	-9.8
Federal debt (per cent of GDP)	30.8	30.7	30.5	30.0	29.3	28.6

Note: Totals may not add due to rounding.

¹ A negative number implies a deterioration in the budgetary balance (lower revenues or higher spending).

A positive number implies an improvement in the budgetary balance (higher revenues or lower spending).

² Table A2.8 provides a detailed list of policy actions since FES 2018.

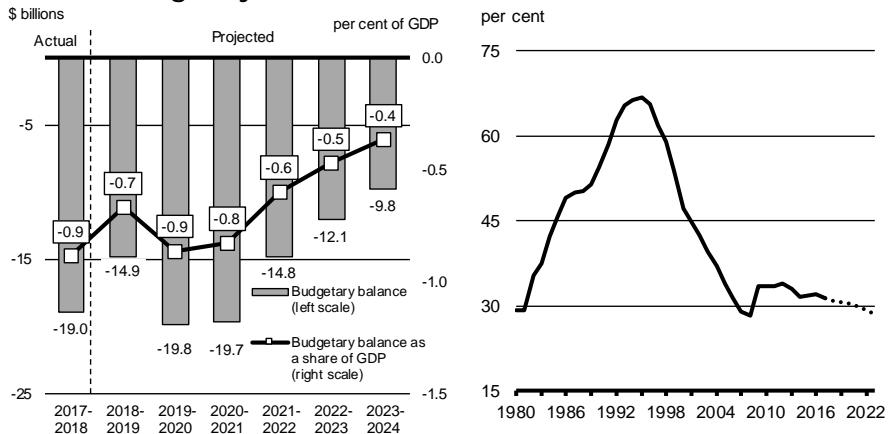
³ Table A2.9 provides a detailed list of other Budget 2019 investments.

Budget 2019 continues to carefully manage deficits over the medium term. After including the measures proposed in this budget, the deficit is projected to decline from \$19.8 billion in 2019–20 to \$9.8 billion by 2023–24, with a projected continuous decline in the federal debt-to-GDP ratio, which is expected to reach 28.6 per cent in 2023–24 (Chart A1.11).

The Government continues to carefully manage deficits to ensure long-term fiscal sustainability

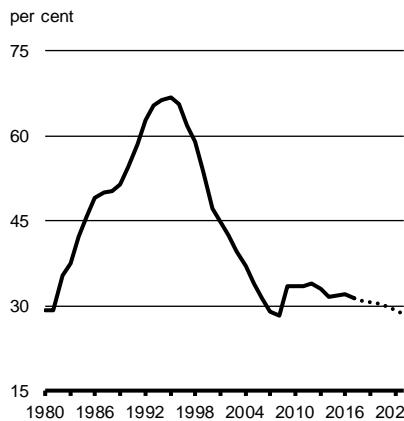
Chart A1.11

Federal Budgetary Balance



Note: Figures have been restated to reflect the historical revisions to the Canadian System of National Accounts, released on March 1st, 2019.
Sources: *Fiscal Reference Tables*; Department of Finance Canada calculations.

Federal Debt-to-GDP Ratio



Note: Figures have been restated to reflect the historical revisions to the Canadian System of National Accounts, released on March 1st, 2019.
Sources: *Fiscal Reference Tables*; Department of Finance Canada calculations.

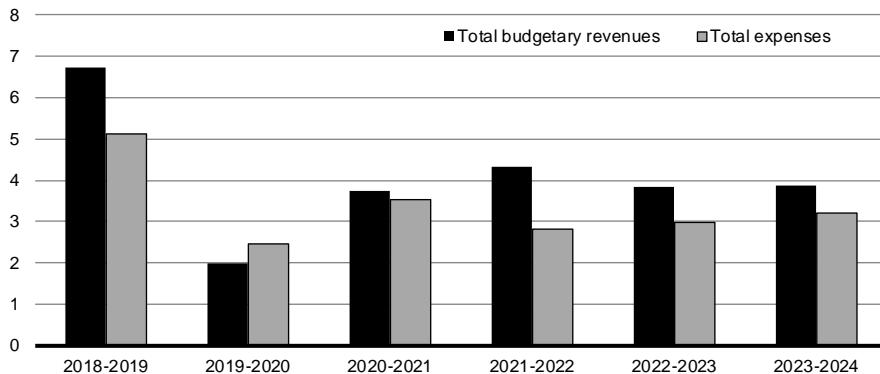
Budgetary revenues are expected to grow on average by 4.1 per cent annually over the forecast horizon, in line with economic growth over the period, while expenses are expected to grow at approximately 3.3 per cent per year (Chart 1.12). Notably, the decrease in revenue growth in 2019–20 is associated with the new tax incentives proposed in the 2018 Fall Economic Statement to encourage businesses to accelerate investment in capital, including the Accelerated Investment Incentive.

On average, budgetary revenues are expected to grow faster than expenses over the forecast horizon

Chart A1.12

Year-over-Year Growth in Revenues and Expenses

per cent



Note: For comparison purposes with financial results presented over the projection period, restated 2017–18 figures were used to reflect the change in accounting treatment of the Canadian Commercial Corporation.

Source: Department of Finance Canada calculations.

Impact of Alternative Economic Scenarios

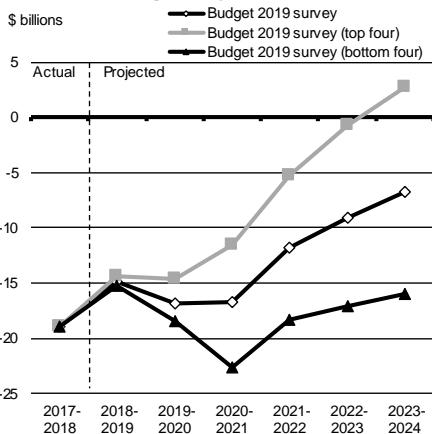
The fiscal projections presented in this budget are based on an average of the February 2019 private sector economic outlook survey. However, economists surveyed offered a wide range of views on future economic growth and the path of nominal GDP (the broadest measure of the tax base). Changes in economic growth assumptions can have large impacts on the budgetary balance and debt-to-GDP profile over an extended projection horizon.

For example, if economic growth was stronger than expected, equaling the average of the top four individual forecasts for nominal GDP growth—which is equivalent to nominal GDP growth being 0.4 percentage points per year higher, on average, than the full February survey—the budgetary balance would improve by \$5.4 billion per year (Chart A1.13).

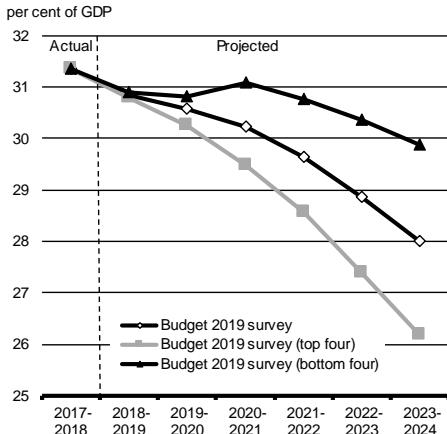
Impact of Alternative Economic Scenarios

Chart A1.13

Federal Budgetary Balance



Federal Debt-to-GDP Ratio



Notes: Based on the average private sector economists' projection for nominal GDP, excluding the adjustment for risk. The top (bottom) four scenarios are based on the average of the most optimistic (pessimistic) projections for nominal GDP among the economists surveyed.

Sources: Department of Finance Canada February 2019 survey of private sector economists; Department of Finance Canada calculations.

Conversely, basing fiscal projections on the average of the bottom four individual forecasts for nominal GDP growth—which is equivalent to nominal GDP growth being 0.4 percentage points per year lower, on average, than in the full February survey—the budgetary balance would worsen by \$5.3 billion per year on average, and the federal debt-to-GDP ratio would still decline, but would be 29.9 per cent in 2023–24.

ANNEX 2

Details of Economic and Fiscal Projections

Contents

Budget 2019 economic and fiscal projections are detailed in this annex in the following sections:

1. Private Sector Economic Projections
2. Changes to the Fiscal Outlook since the 2018 *Fall Economic Statement*
 - 2.1 Economic and Fiscal Developments since the 2018 *Fall Economic Statement*
3. Fiscal Projections
 - 3.1 Summary Statement of Transactions
 - 3.2 Outlook for Budgetary Revenues
 - 3.3 Outlook for Program Expenses
 - 3.4 Financial Source/Requirement
4. Supplementary Information
 - 4.1 Policy Actions Announced since the 2018 *Fall Economic Statement*
 - 4.2 Other Budget 2019 Measures (Not Included in Previous Chapters)
 - 4.3 Policy Actions and Budget 2019 Investments by Department (Estimates Basis)
 - 4.4 Reconciliation of Budget 2019 Expenses with 2018–19 Main Estimates and 2019–20 Planned Estimates
 - 4.5 Sensitivity of Fiscal Projections to Economic Shocks

1. Private Sector Economic Projections

The average of private sector forecasts has been used as the basis for fiscal planning since 1994 and introduces an element of independence into the Government's economic and fiscal forecast.

The economic forecast presented in this section is based on a survey conducted in February 2019. The February 2019 survey includes the views of 14 private sector economists:

1. BMO Capital Markets,
2. Caisse de dépôt et placement du Québec,
3. Canadian Federation of Independent Business,
4. CIBC World Markets,
5. The Conference Board of Canada,
6. Desjardins,
7. IHS Markit,
8. Industrial Alliance Insurance and Financial Services Inc.,
9. Laurentian Bank Securities,
10. National Bank Financial Markets,
11. Royal Bank of Canada,
12. Scotiabank,
13. TD Bank Financial Group, and
14. the University of Toronto (Policy and Economic Analysis Program).

Table A2.1
Average Private Sector Forecasts
per cent, unless otherwise indicated

	2018	2019	2020	2021	2022	2023	2018–2023
Real GDP growth¹							
Budget 2018	2.1	1.6	1.7	1.6	1.8	–	–
2018 Fall Economic Statement	1.9	1.9	1.6	1.6	1.9	1.9	1.8
Budget 2019	1.9	1.8	1.6	1.7	1.9	1.9	1.8
GDP inflation¹							
Budget 2018	2.0	1.9	2.0	2.0	1.9	–	–
2018 Fall Economic Statement	2.0	2.0	1.7	2.0	2.0	2.0	2.0
Budget 2019	1.9	1.6	1.9	2.0	2.0	2.0	1.9
Nominal GDP growth¹							
Budget 2018	4.1	3.5	3.8	3.6	3.8	–	–
2018 Fall Economic Statement	3.9	4.0	3.3	3.7	4.0	3.9	3.8
Budget 2019	3.8	3.4	3.5	3.7	3.9	4.0	3.7
Nominal GDP level¹ (billions of dollars)							
Budget 2018	2,229	2,307	2,395	2,482	2,576	–	–
2018 Fall Economic Statement	2,226	2,314	2,391	2,479	2,578	2,679	–
Budget 2019	2,223	2,298	2,379	2,467	2,564	2,667	–
Difference between Budget 2018 and Budget 2019	-6	-9	-16	-15	-12	–	–
Difference between 2018 Fall Economic Statement and Budget 2019	-3	-16	-12	-13	-14	-13	-12
3-month treasury bill rate							
Budget 2018	1.4	2.0	2.3	2.5	2.5	–	–
2018 Fall Economic Statement	1.4	2.1	2.4	2.4	2.4	2.6	2.2
Budget 2019	1.4	1.9	2.2	2.3	2.4	2.5	2.1
10-year government bond rate							
Budget 2018	2.3	2.8	3.1	3.2	3.3	–	–
2018 Fall Economic Statement	2.3	2.8	3.0	3.1	3.2	3.3	3.0
Budget 2019	2.3	2.4	2.7	2.8	3.1	3.3	2.8
Exchange rate (US cents/C\$)							
Budget 2018	79.0	79.6	80.3	80.6	81.2	–	–
2018 Fall Economic Statement	77.6	78.4	78.7	79.5	80.2	81.1	79.2
Budget 2019	77.2	76.3	77.2	77.7	78.2	79.9	77.8
Unemployment rate							
Budget 2018	6.0	6.0	6.1	6.0	6.0	–	–
2018 Fall Economic Statement	5.9	5.8	6.0	6.1	6.0	6.0	6.0

Table A2.1
Average Private Sector Forecasts
per cent, unless otherwise indicated

	2018	2019	2020	2021	2022	2023	2018–2023
Budget 2019	5.8	5.7	5.9	6.0	6.0	5.9	5.9
Consumer Price Index inflation							
Budget 2018	1.9	2.0	1.9	1.9	2.0	–	–
2018 Fall Economic Statement	2.4	2.1	1.9	1.9	2.0	2.0	2.0
Budget 2019	2.3	1.9	2.0	1.9	2.0	2.0	2.0
U.S. real GDP growth							
Budget 2018	2.4	1.9	1.9	1.8	1.9	–	–
2018 Fall Economic Statement	2.8	2.5	1.8	1.8	2.0	1.9	2.1
Budget 2019	2.9	2.4	1.7	1.7	1.9	1.9	2.1
WTI crude oil price (\$US per barrel)							
Budget 2018	56	57	57	59	62	–	–
2018 Fall Economic Statement	67	68	65	65	68	71	67
Budget 2019	66	59	60	61	63	65	62

¹ Figures have been restated to reflect the historical revisions to the Canadian System of National Accounts, released on March 1st, 2019.

Sources: For Budget 2018, Department of Finance Canada December 2017 survey of private sector economists; for the 2018 *Fall Economic Statement*, September 2018 survey of private sector economists; and for Budget 2019, February 2019 survey of private sector economists.

2. Changes to the Fiscal Outlook since the 2018 Fall Economic Statement

Table A2.2

Economic and Fiscal Developments since the 2018 Fall Economic Statement (FES 2018) and Investments Included in Budget 2019
billions of dollars

	Projection					
	2018–2019	2019–2020	2020–2021	2021–2022	2022–2023	2023–2024
FES 2018 budgetary balance¹	-18.1	-19.6	-18.1	-15.1	-12.6	-11.4
Adjustment for risk from FES 2018	3.0	3.0	3.0	3.0	3.0	3.0
FES 2018 budgetary balance (without risk adjustment)	-15.1	-16.6	-15.1	-12.1	-9.6	-8.4
Economic and fiscal developments since FES 2018	5.9	4.8	4.7	3.7	4.1	4.6
Revised budgetary balance before policy actions and investments	-9.3	-11.9	-10.4	-8.4	-5.5	-3.9
Policy actions since FES 2018 ²	-1.4	-1.0	-0.6	-0.6	-0.2	-0.2
Investments in Budget 2019						
Investing in the Middle Class	0.0	-0.6	-1.3	-1.8	-2.3	-2.4
Building a Better Canada	-3.2	-0.3	-0.8	-0.8	-0.6	-0.4
Advancing Reconciliation	-0.9	-0.7	-1.0	-1.0	-0.6	-0.6
Delivering Real Change	-0.1	-1.7	-1.6	-0.8	-0.5	-0.6
Other Budget 2019 Investments ³	0.0	-0.7	-0.9	1.6	0.6	1.2
Total investments in Budget 2019	-4.2	-4.0	-5.7	-2.7	-3.4	-2.8
Total policy actions and investments since FES 2018	-5.6	-5.0	-6.3	-3.3	-3.6	-2.9
Budgetary balance	-14.9	-16.8	-16.7	-11.8	-9.1	-6.8
Adjustment for risk						
Final budgetary balance (with risk adjustment)	-14.9	-19.8	-19.7	-14.8	-12.1	-9.8
Federal debt (per cent of GDP)	30.8	30.7	30.5	30.0	29.3	28.6

Note: Totals may not add due to rounding.

¹ A negative number implies a deterioration in the budgetary balance (lower revenues or higher spending). A positive number implies an improvement in the budgetary balance (higher revenues or lower spending).

² Table A2.8 provides a detailed list of policy actions since FES 2018.

³ Table A2.9 provides a detailed list of other Budget 2019 investments.

2.1 Economic and Fiscal Developments since the 2018 Fall Economic Statement

Table A2.3

Economic and Fiscal Developments since the 2018 Fall Economic Statement

billions of dollars

	Projection					
	2018–2019	2019–2020	2020–2021	2021–2022	2022–2023	2023–2024
Economic and fiscal developments by component¹:						
Change in budgetary revenues						
(1.1) Income taxes	4.2	1.7	2.0	1.2	1.2	1.4
(1.2) Excise taxes/duties	1.6	1.5	1.1	1.2	1.2	1.2
(1.3) Fuel charge proceeds	0.0	0.0	0.0	0.0	0.0	0.1
(1.4) Employment Insurance premiums	-0.6	-0.5	-0.7	-0.7	-0.8	-0.8
(1.5) Other revenues ²	0.6	-0.4	-0.3	-0.1	0.0	0.0
(1) Total budgetary revenues	5.7	2.3	2.1	1.6	1.6	1.8
Change in program expenses						
(2.1) Major transfers to persons	1.5	1.5	1.6	1.1	0.9	0.7
(2.2) Major transfers to other levels of government	-0.1	-0.2	0.0	0.1	0.1	0.0
(2.3) Direct program expenses ²	1.5	-0.1	-0.4	-0.7	0.2	1.0
(2) Total program expenses	-0.1	1.2	1.1	0.5	1.2	1.6
(3) Public debt charges	0.3	1.3	1.4	1.6	1.4	1.2
(4) Total economic and fiscal developments since the 2018 Fall Economic Statement	5.9	4.8	4.7	3.7	4.1	4.6

Note: Totals may not add due to rounding.

¹ A negative number implies a deterioration in the budgetary balance (lower revenues or higher spending). A positive number implies an improvement in the budgetary balance (higher revenues or lower spending).

² For comparison purposes, the impact of a change in the Government's accounting for the Canadian Commercial Corporation, which results in the commercial trading transactions of the Corporation no longer being presented in the Government's financial results, has been excluded from the table. The change has offsetting impacts on revenues and expenses and no overall impact on the budgetary balance.

Relative to the 2018 Fall Economic Statement (FES 2018), budgetary revenues are projected to be higher across the forecast horizon, driven by strong fiscal results in 2018–19. This year-to-date strength is partly offset by a weaker economic outlook starting in 2019–20, as the projected level of nominal GDP is lower relative to expectations at the time of FES 2018.

Income tax revenues have been revised up relative to FES 2018, driven by improvements across the various revenue streams. In 2018–19, upward revisions to corporate and non-resident income tax revenues account for the majority of the increase, due in large part to strength in year-to-date fiscal results. In particular, a number of large reassessments are contributing to 2018–19 corporate income tax revenue strength. Over the rest of the forecast horizon, income tax revenues are projected to be higher, with personal income tax revenues playing a larger role, driven by low unemployment and a strong labour market.

Excise taxes and duties have been revised up relative to FES 2018 due to stronger-than-expected year-to-date fiscal results. Of note, the upward revision is larger in the first two years than in the outer years due to the assumed continued application of steel and aluminum tariffs until the middle of 2019–20.

Employment Insurance (EI) premium revenues are projected to be lower across the forecast horizon than at the time of FES 2018. This is a result of slightly weaker-than-expected year-to-date results in 2018–19, and a projected decrease in the EI premium rate beginning in 2020 (not including Budget 2019 measures).

Other revenues, such as those resulting from the sales of goods and services, investments and loans, interest and penalties and Crown corporations' net profits, are projected to be higher in 2018–19, primarily due to a better-than-expected financial performance by enterprise Crown corporations and interest and penalties revenues. Small downward revisions in future years mostly reflect lower expected returns on the Government's interest-bearing investments, as a result of the lower interest rate outlook.

With respect to expenses, major transfers to persons have been revised downwards throughout the forecast horizon compared to FES 2018. EI benefits are lower, reflecting year-to-date results that have shown fewer-than-expected beneficiaries, largely due to a strengthening labour market. The outlook for spending on elderly benefits (including Old Age Security, Guaranteed Income Supplement and Allowance payments) has also been reduced, due to lower-than-projected year-to-date results and lower projected Consumer Price Index (CPI) inflation in the near term (to which these benefits are indexed).

Major transfers to other levels of government are broadly similar to FES 2018 projections. The increase in the early years is driven by revised tax point transfers under the Quebec Abatement, which are offset from 2020–21 onwards by lower forecasted Canada Health Transfer and Equalization transfer payments (reflecting a weaker outlook for nominal GDP).

Compared to FES 2018, direct program expenses are higher in 2018–19 through 2021–22, reflecting the anticipated revaluation of a number of liabilities, including higher pensions and employee future benefits expenses due to lower projected long-term interest rates, and Indigenous claims. Direct program expenses are slightly lower in the remaining years of the forecast horizon, reflecting small adjustments in departmental spending forecasts.

Public debt charges are lower across the forecast horizon compared to FES 2018. Public debt charges are expected to be lower in 2018–19, largely due to lower inflation, which results in lower CPI adjustments on Real Return Bonds. From 2019–20 onwards, the improvement over FES 2018 largely reflects lower projected interest rates, which result in lower interest expenses on market debt, pensions and employee future benefits.

3. Fiscal Projections

3.1 Summary Statement of Transactions

Table A2.4

Summary Statement of Transactions

billions of dollars

	Projection						
	2017– 2018	2018– 2019	2019– 2020	2020– 2021	2021– 2022	2022– 2023	2023– 2024
Budgetary revenues¹	311.2	332.2	338.8	351.4	366.7	380.7	395.5
Program expenses ¹	308.3	323.5	329.4	339.7	348.3	358.4	369.1
Public debt charges	21.9	23.6	26.2	28.5	30.2	31.4	33.2
Total expenses	330.2	347.1	355.6	368.2	378.4	389.8	402.2
Adjustment for risk			-3.0	-3.0	-3.0	-3.0	-3.0
Final budgetary balance	-19.0	-14.9	-19.8	-19.7	-14.8	-12.1	-9.8
Financial position							
Total liabilities ¹	1,151.3	1,186.3	1,219.3	1,257.5	1,293.6	1,325.5	1,353.7
Financial assets ^{1,2}	398.4	415.1	425.6	441.5	460.0	477.7	494.6
Net debt	752.9	771.2	793.7	816.0	833.6	847.8	859.1
Non-financial assets ¹	81.6	85.6	88.3	90.9	93.7	95.9	97.4
Federal debt	671.3	685.6	705.4	725.1	739.8	751.9	761.7
Per cent of GDP³							
Budgetary revenues	14.5	14.9	14.7	14.8	14.9	14.8	14.8
Program expenses	14.4	14.6	14.3	14.3	14.1	14.0	13.8
Public debt charges	1.0	1.1	1.1	1.2	1.2	1.2	1.2
Budgetary balance	-0.9	-0.7	-0.9	-0.8	-0.6	-0.5	-0.4
Federal debt	31.3	30.8	30.7	30.5	30.0	29.3	28.6

Note: Totals may not add due to rounding.

¹ For comparison purposes with financial results presented over the projection period, 2017–18 figures have been restated to reflect the change in accounting treatment of the Canadian Commercial Corporation.

² The projected level of financial assets for 2018–19 includes an estimate of other comprehensive income.

³ Figures for 2017–18 have been restated to reflect the historical revisions to the Canadian System of National Accounts, released on March 1st, 2019.

3.2 Outlook for Budgetary Revenues

Table A2.5

The Revenue Outlook

billions of dollars

	Projection						
	2017– 2018	2018– 2019	2019– 2020	2020– 2021	2021– 2022	2022– 2023	2023– 2024
Income taxes							
Personal income tax	153.6	162.8	170.4	177.8	185.0	192.7	201.3
Corporate income tax	47.8	52.0	46.3	47.0	49.7	50.7	52.8
Non-resident income tax	7.8	9.6	9.7	9.7	9.7	9.8	9.9
Total	209.3	224.3	226.5	234.5	244.4	253.2	264.0
Excise taxes/duties							
Goods and Services Tax	36.8	39.6	40.8	42.1	43.6	45.2	47.0
Customs import duties	5.4	6.9	6.3	5.9	6.1	6.4	6.3
Other excise taxes/duties	11.7	12.0	12.3	12.4	12.6	12.7	12.7
Total	53.8	58.5	59.3	60.4	62.3	64.3	66.0
Total tax revenues	263.1	282.9	285.8	294.9	306.6	317.5	330.0
Fuel charge proceeds	0.0	0.0	2.3	3.5	4.6	5.7	5.7
Employment Insurance premium revenues	21.1	21.4	22.0	22.7	23.5	24.4	25.3
Other revenues							
Enterprise Crown corporations	7.7	7.4	7.3	7.9	8.7	9.3	10.0
Other programs ¹	17.8	19.5	19.4	20.1	20.9	21.3	21.8
Net foreign exchange	1.5	1.1	1.9	2.3	2.3	2.6	2.7
Total	27.0	27.9	28.7	30.3	31.9	33.2	34.5
Total budgetary revenues	311.2	332.2	338.8	351.4	366.7	380.7	395.5
Per cent of GDP²							
Total tax revenues	12.3	12.7	12.4	12.4	12.4	12.4	12.4
Fuel charge proceeds	0.0	0.0	0.1	0.1	0.2	0.2	0.2
Employment Insurance premium revenues	1.0	1.0	1.0	1.0	1.0	1.0	0.9
Other revenues	1.3	1.3	1.2	1.3	1.3	1.3	1.3
Total budgetary revenues	14.5	14.9	14.7	14.8	14.9	14.8	14.8

Note: Totals may not add due to rounding.

¹ For comparison purposes with revenues presented over the projection period, 2017–18 figures have been restated to reflect the change in accounting treatment of the Canadian Commercial Corporation.

² Figures for 2017–18 have been restated to reflect the historical revisions to the Canadian System of National Accounts, released on March 1st, 2019.

Table A2.5 sets out the Government's projection for budgetary revenues. Overall, budgetary revenues are expected to increase by 6.7 per cent in 2018–19, reflecting robust year-to-date results and economic growth. Over the remainder of the forecast horizon, revenues are projected to grow at an average annual rate of 3.5 per cent, in line with projected growth in nominal GDP.

Personal income tax revenues—the largest component of budgetary revenues—are projected to increase by \$9.2 billion, or 6.0 per cent, to \$162.8 billion in 2018–19. The strong growth in 2018–19 is driven, in particular, by high employment, reflecting a strong labour market. Over the remainder of the projection period, personal income tax revenues are forecast to increase somewhat faster than growth in nominal GDP, averaging 4.3 per cent annually, given the progressive nature of the income tax system combined with projected real income gains.

Corporate income tax revenues are projected to increase by \$4.2 billion, or 8.7 per cent, to \$52.0 billion in 2018–19. This increase reflects growth in year-to-date revenues from a number of sectors, including finance, manufacturing, and wholesale trade, as well as several large reassessments resulting from audits. Revenues are then expected to decline in 2019–20 by 10.9 per cent, primarily due to the temporary cost of new tax measures to promote business investment announced in the 2018 *Fall Economic Statement*, as well as a projected slowdown in corporate profits. Over the remainder of the projection period, corporate income tax revenues are expected to grow at an average annual rate of 3.3 per cent.

Non-resident income tax revenues are taxes paid by non-residents on Canadian-sourced income, notably dividend and interest income. For 2018–19, non-resident income tax revenues are projected to increase by \$1.7 billion, or 21.9 per cent, based on strong year-to-date results and the associated increase in dividend and interest income. Over the remainder of the forecast horizon, these revenues are projected to grow at an average annual rate of 0.7 per cent.

Goods and Services Tax (GST) revenues are forecast to grow by 7.8 per cent in 2018–19 based on year-to-date fiscal results. Over the remainder of the projection period, GST revenues are forecast to grow by 3.5 per cent per year, on average, in line with the outlook for taxable consumption.

Customs import duties are projected to grow 27.0 per cent in 2018–19, largely due to the temporary application of the steel and aluminum retaliatory tariffs. Over the remainder of the projection horizon, customs import duties are projected to decline at an average of 1.8 per cent, due to the assumed removal of steel and aluminum tariffs and the phase-out of tariffs under various trade agreements, including the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and the Canada–United States–Mexico Agreement.

Other excise taxes and duties (OETD) revenues are projected to increase by \$0.4 billion, or 3.2 per cent, to \$12.0 billion in 2018–19, largely due to the higher excise duty on tobacco products announced in Budget 2018. Over the remainder of the projection horizon, OETD revenues are expected to grow at an average annual rate of 1.1 per cent based on historical consumption trends as well as the forecast of cannabis revenue.

Beginning in 2019–20, the revenue outlook includes an estimate for fuel charge proceeds that arise from the federal carbon pollution pricing system. The Government will return all direct proceeds from the fuel charge to the jurisdiction of origin. For jurisdictions that do not meet the Canada-wide federal standard for reducing carbon pollution—Ontario, New Brunswick, Manitoba and Saskatchewan—the bulk of these proceeds will be going to individuals and families through Climate Action Incentive payments. For jurisdictions that voluntarily adopted the federal system—Yukon and Nunavut—all direct proceeds will be returned to the governments of those jurisdictions.

EI premium revenues are projected to increase by 1.3 per cent in 2018–19 due to modest growth in insurable earnings coupled with an increase in the EI premium rate to \$1.66 per \$100 of insurable earnings in 2018. In 2019–20, EI premium revenues are then expected to grow 2.6 per cent, as stronger expected growth in earnings more than offsets the reduction in the EI premium rate in 2019 to \$1.62 per \$100 of insurable earnings (as announced by the Canada Employment Insurance Commission). Over the remainder of the forecast horizon, EI premium revenues are expected to continue on their upward trend based on projected growth in insurable earnings and a projected EI premium rate for 2020 of \$1.61 per \$100 of insurable earnings, after taking into account new EI measures announced in Budget 2019.

Other revenues are made up of three broad components: net income from enterprise Crown corporations; other program revenues, particularly consolidated Crown corporation revenues, returns on investments, proceeds from the sales of goods and services; and revenues in the Exchange Fund Account.

Enterprise Crown corporation revenues are projected to decrease slightly in 2018–19 and 2019–20 driven by expected declines in net income reported by Export Development Canada and Canada Mortgage and Housing Corporation. Revenue is expected to grow at an average annual rate of 8.1 per cent over the remainder of the forecast horizon, reflecting the outlooks presented in respective enterprise Crown corporation corporate plans.

Other program revenues are affected by consolidated Crown corporation revenues, interest and exchange rate movements (which affect the Canadian-dollar value of foreign-denominated assets), and flow-through items that give rise to an offsetting expense and therefore do not impact the budgetary balance. These revenues are projected to increase by 9.4 per cent in 2018–19, largely reflecting an increase in interest and penalties revenues due to higher interest rates and large company reassessments. Over the remainder of the forecast horizon, other program revenues are projected to increase at an average annual rate of 2.3 per cent as a result of growth in revenue from sales of goods and services and interest and penalties revenues.

Net foreign exchange revenues, which consist mainly of returns on investments held in the Exchange Fund Account, are volatile and sensitive to fluctuations in foreign exchange rates and foreign interest rates. These revenues are expected to decrease in 2018–19, due in large part to a decrease in the expected net income for the Exchange Fund Account. Over the remainder of the projection period, net foreign exchange revenues are projected to increase, largely as a result of a projected increase in interest rates.

Employment Insurance Operating Account

Employment Insurance Operating Account Projections

	2017– 2018	2018– 2019	2019– 2020	2020– 2021	2021– 2022	2022– 2023	2023– 2024	
El premium revenues	21.1	21.4	22.0	22.7	23.5	24.4	25.3	
El benefits ¹	19.7	18.8	19.9	21.5	23.0	24.0	24.8	
El administration and other expenses ²	1.9	1.7	1.8	1.8	1.8	1.8	1.7	
	2017 ³	2018	2019	2020	2021	2022	2023	(..) 2026
El Operating Account annual balance	-0.9	1.4	1.0	0.1	-0.7	-0.9	-0.9	-0.2
El Operating Account cumulative balance	1.6	3.0	3.9	4.0	3.3	2.3	1.4	-0.3 ⁴
Projected premium rate (per \$100 of insurable earnings)	1.63	1.66	1.62	1.61	1.61	1.61	1.61	1.61

¹ El benefits include regular El benefits, sickness, maternity, parental, compassionate care, fishing and work sharing benefits, and employment benefits and support measures. These represent about 90 per cent of total El program expenses.

² The remaining El costs relate mainly to administration and are included in direct program expenses.

³ Values for 2017 are actual data. Values for 2018 and future years are a projection.

⁴ The El Operating Account cumulative balance does not reach exactly zero at the end of the seven-year period as projected El rates are rounded to the nearest whole cent per \$100 of insurable earnings, in accordance with the *Employment Insurance Act*.

The Employment Insurance Operating Account operates within the Consolidated Revenue Fund. As such, El-related revenues and expenses that are credited and charged to the Account, respectively, in accordance with the *Employment Insurance Act*, are consolidated with those of the Government, and impact the budgetary balance. For consistency with the El premium rate, which is set on a calendar-year basis with the objective of having the Account break even over time, the annual and cumulative balances of the Account are also presented on a calendar-year basis.

The El Operating Account is expected to record annual surpluses of \$1.4 billion in 2018 and \$1.0 billion in 2019, and to roughly break even in 2020. The Account is then projected to record annual deficits across the remainder of the horizon. For fiscal planning purposes, an El premium rate of \$1.61 has been applied from 2020 onwards (a one-cent decrease from the 2019 premium rate) such that the El Operating Account achieves cumulative balance by 2026.

3.3 Outlook for Program Expenses

Table A2.6

The Expense Outlook

billions of dollars

	Projection						
	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Major transfers to persons							
Elderly benefits	50.6	53.3	56.2	59.7	63.3	66.9	70.6
Employment Insurance benefits ¹	19.7	18.8	19.9	21.5	23.0	24.0	24.8
Canada Child Benefit ²	23.4	23.9	24.3	24.6	25.1	25.6	26.1
Total	93.8	96.0	100.4	105.8	111.4	116.4	121.5
Major transfers to other levels of government							
Canada Health Transfer	37.1	38.6	40.4	41.8	43.3	44.9	46.6
Canada Social Transfer	13.7	14.2	14.6	15.0	15.5	15.9	16.4
Equalization	18.3	19.0	19.8	20.5	21.3	22.1	22.9
Territorial Formula Financing	3.7	3.8	3.9	4.2	4.3	4.4	4.6
Gas Tax Fund ³	2.1	4.3	2.2	2.2	2.3	2.3	2.4
Home care and mental health	0.3	0.9	1.1	1.3	1.5	1.2	1.2
Other fiscal arrangements ⁴	-4.7	-4.7	-5.1	-5.3	-5.5	-5.8	-6.0
Total	70.5	76.0	76.9	79.6	82.6	85.0	88.1
Direct program expenses							
Fuel charge proceeds returned ⁵	0.0	0.6	2.6	3.8	4.9	5.7	5.7
Other transfer payments	47.1	54.1	52.8	55.0	54.5	55.1	56.4
Operating expenses ^{6,7}	96.8	96.7	96.7	95.4	95.0	96.2	97.3
Total	144.0	151.5	152.1	154.2	154.3	156.9	159.4
Total program expenses	308.3	323.5	329.4	339.7	348.3	358.4	369.1
Per cent of GDP							
Major transfers to persons	4.4	4.3	4.4	4.4	4.5	4.5	4.6
Major transfers to other levels of government	3.3	3.4	3.3	3.3	3.3	3.3	3.3
Direct program expenses	6.7	6.8	6.6	6.5	6.3	6.1	6.0
Total program expenses	14.4	14.6	14.3	14.3	14.1	14.0	13.8

Note: Totals may not add due to rounding.

¹ EI benefits include regular EI benefits, sickness, maternity, parental, compassionate care, fishing and work-sharing benefits, and employment benefits and support measures. These represent about 90 per cent of total EI program expenses. The remaining EI costs relate mainly to administration and are part of operating expenses.

² Includes retroactive payments for previous children's benefits (Canada Child Tax Benefit and Universal Child Care Benefit) that existed prior to the introduction of the Canada Child Benefit in Budget 2016.

³ The Gas Tax Fund is a component of the Community Improvement Fund.

⁴ Other fiscal arrangements include the Youth Allowances Recovery; Alternative Payments for Standing Programs, which represent a recovery from Quebec of a tax point transfer; statutory subsidies; payments under the 2005 Offshore Arrangements; and established terms for repayable floor loans.

⁵ This will be included as a transfer payment in the *Public Accounts of Canada*.

⁶ This includes capital amortization expenses.

⁷ For comparison purposes with expenses presented over the projection period, 2017–18 figures have been restated to reflect the change in accounting treatment of the Canadian Commercial Corporation.

Table A2.6 provides an overview of the projections for program expenses, on an accrual basis, by major component. A more detailed outlook for 2018–19 and 2019–20 can be found in Tables A2.13 and A2.14, which provide a full estimates-budget reconciliation. Program expenses consist of major transfers to persons, major transfers to other levels of government and direct program expenses.

Major transfers to persons are projected to increase from \$96.0 billion in 2018–19 to \$121.5 billion in 2023–24. Major transfers to persons consist of elderly, EI and children’s benefits.

Elderly benefits, which are comprised of Old Age Security, Guaranteed Income Supplement and Allowance payments to qualifying seniors, are projected to grow from \$53.3 billion in 2018–19 to \$70.6 billion in 2023–24, or approximately 5.8 per cent per year. The expected increase in elderly benefits is due to projected consumer price inflation, to which benefits are fully indexed, and a projected increase in the population of seniors.

EI benefits are projected to decrease by 4.7 per cent to \$18.8 billion in 2018–19, driven by a falling unemployment rate. Over the remainder of the horizon, EI benefits are projected to grow at an average of 5.7 per cent annually, reflecting expected gains in average weekly benefits and modest increases in the number of EI beneficiaries as the unemployment rate is projected to stabilize at around 6.0 per cent after 2019, based on the outlook provided by private sector forecasters.

Canada Child Benefits (CCB) are projected to rise from \$23.9 billion in 2018–19 to \$26.1 billion in 2023–24, or approximately 1.7 per cent annually, largely reflecting the full indexation of the CCB to consumer price inflation.

Major transfers to other levels of government, which include the Canada Health Transfer (CHT), the Canada Social Transfer (CST), Equalization, Territorial Formula Financing and the Gas Tax Fund, among others, are expected to increase over the forecast horizon, from \$76.0 billion in 2018–19 to \$88.1 billion in 2023–24.

The CHT is projected to grow from \$38.6 billion in 2018–19 to \$46.6 billion in 2023–24. The CHT grows in line with a three-year moving average of nominal GDP growth, with funding guaranteed to increase by at least 3.0 per cent per year. The CST is legislated to grow at 3.0 per cent per year. Gas Tax Fund commitments are expected to increase to \$4.3 billion in 2018–19 due to a one-time transfer of \$2.2 billion proposed in this budget. In 2019–20 and beyond, base Gas Tax Fund commitments are indexed at 2.0 per cent per year, with increases applied in \$100 million increments. Announced in Budget 2017, home care and mental health transfers in support of provincial and territorial home care and mental health initiatives will grow from \$0.9 billion in 2018–19 to \$1.2 billion in 2023–24.

Direct program expenses are projected to rise to \$151.5 billion in 2018–19 and further to \$159.4 billion by 2023–24. Direct program expenses include transfer payments administered by departments and operating expenses.

The projected increase in direct program expenses is driven, in large part, by the introduction of the federal carbon pollution pricing system and the associated return of direct fuel charge proceeds, which are expected to increase from \$0.6 billion in 2018–19 to \$5.7 billion in 2023–24. There is also a projected increase in other transfer payments administered by departments over the forecast horizon, including transfers to provincial, municipal and Indigenous governments and post-secondary institutions for investments in infrastructure. Other transfer payments are projected to increase from \$54.1 billion in 2018–19 to \$56.4 billion in 2023–24.

Operating expenses reflect the cost of doing business for more than 100 government departments, agencies and Crown corporations, and are projected to reach \$96.7 billion in 2018–19. Operating expenses are projected to decrease to \$95.0 billion in 2021–22, and then grow to \$97.3 billion in 2023–24. The growth in operating expenses is composed of average annual growth of about 3 per cent in departmental expenses, which is offset by falling expenses related to pensions and employee future benefits, reflecting the projected rise in long-term interest rates.

3.4 Financial Source/Requirement

The budgetary balance is presented on a full accrual basis of accounting, recording government revenues and expenses when they are earned or incurred, regardless of when the cash is received or paid.

In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by the budgetary balance, but also by the Government's non-budgetary transactions. These include changes in federal employee pension liabilities; changes in non-financial assets; investing activities through loans, investments and advances; and changes in other financial assets and liabilities, including foreign exchange activities.

Table A2.7

The Budgetary Balance, Non-Budgetary Transactions and Financial Source/Requirement

billions of dollars

	Projection						
	2017–2018	2018–2019	2019–2020	2020–2021	2021–2022	2022–2023	2023–2024
Budgetary balance	-19.0	-14.9	-19.8	-19.7	-14.8	-12.1	-9.8
Non-budgetary transactions							
Pensions and other accounts	10.4	7.5	6.3	2.9	0.6	-1.2	-1.6
Non-financial assets ¹	-3.9	-4.0	-2.6	-2.6	-2.8	-2.1	-1.5
Loans, investments and advances							
Enterprise Crown corporations	-2.1	-5.0	-7.0	-6.0	-7.7	-7.2	-5.8
Other	-1.0	-5.4	-0.6	-2.3	-2.2	-2.2	-2.0
Total	-3.1	-10.4	-7.6	-8.3	-9.9	-9.4	-7.8
Other transactions							
Accounts payable, receivable, accruals and allowances ¹	4.3	7.6	-7.1	-6.0	-5.8	-3.8	-4.6
Foreign exchange activities	1.9	1.5	-1.0	-3.6	-3.9	-4.0	-3.9
Total	6.1	9.1	-8.1	-9.6	-9.7	-7.8	-8.6
Total	9.5	2.3	-12.1	-17.7	-21.8	-20.5	-19.5
Financial source/requirement	-9.4	-12.6	-31.9	-37.3	-36.6	-32.5	-29.3

Note: Totals may not add due to rounding.

¹ For comparison purposes with financial results presented over the projection period, 2017–18 figures have been restated to reflect the change in accounting treatment of the Canadian Commercial Corporation.

As shown in Table A2.7, a financial requirement is projected over the entire forecast period. The projected financial requirements for 2018–19 to 2023–24 largely reflect requirements associated with the budgetary balance, increases in retained earnings of enterprise Crown corporations, and growth in other assets, including financing of the Exchange Fund Account.

A financial source is projected for pensions and other accounts for 2018–19 to 2021–22. Pensions and other accounts include the activities of the Government of Canada's employee pension plans and those of federally appointed judges and Members of Parliament, as well as a variety of other employee future benefit plans, such as health care and dental plans, and disability and other benefits for veterans and others. The financial source for pensions and other accounts largely reflects adjustments for pension and benefit expenses not funded in the period.

Financial requirements for non-financial assets mainly reflect the difference between cash outlays for the acquisition of new tangible capital assets and the amortization of capital assets included in the budgetary balance. They also include disposals of tangible capital assets and changes in inventories and prepaid expenses. A net cash requirement of \$2.6 billion is estimated for 2019–20.

Loans, investments and advances include the Government's investments in enterprise Crown corporations, such as Canada Mortgage and Housing Corporation (CMHC), Export Development Canada, the Business Development Bank of Canada (BDC) and Farm Credit Canada (FCC). They also include loans, investments and advances to national and provincial governments and international organizations, and for government programs. The requirements for enterprise Crown corporations projected from 2018–19 to 2023–24 reflect retained earnings of enterprise Crown corporations as well as the Government's decision in Budget 2007 to meet all the borrowing needs of CMHC, BDC and FCC through its own domestic debt issuance. In general, loans, investments and advances are expected to generate additional revenues for the Government in the form of interest or additional net profits of enterprise Crown corporations, which partly offset debt charges associated with these borrowing requirements. These revenues are reflected in projections of the budgetary balance.

Other transactions include the payment of tax refunds and other accounts payable, the collection of taxes and other accounts receivable, the conversion of other accrual adjustments included in the budgetary balance into cash, as well as foreign exchange activities. Projected cash requirements associated with other transactions mainly reflect forecast increases in the Government's official international reserves held in the Exchange Fund Account, as per the prudential liquidity plan, as well as projected growth in accounts receivable, in line with historical trends.

4. Supplementary Information

4.1 Policy Actions Announced since the 2018 Fall Economic Statement

Table A2.8

Policy Actions Announced since the 2018 Fall Economic Statement¹

millions of dollars

	2018– 2019	2019– 2020	2020– 2021	2021– 2022	2022– 2023	2023– 2024	Total
Government Operations, Fairness and Openness	45	177	100	83	83	83	571
Real Property Price and Volume Protection	1	64	64	64	64	64	319
Funding for Public Services and Procurement Canada to support price and volume fluctuations related to real property assets.							
Expediting Access to Pardons for Simple Cannabis Possession Convictions	0	2	0	0	0	0	2
Funding provided to the Parole Board of Canada and the Royal Canadian Mounted Police to support legislation to expedite access to pardons for Canadians previously convicted of simple possession of cannabis.							
Canada Summer Jobs 2019-20	4	62	0	0	0	0	66
Funding provided to Employment and Social Development Canada to continue the Government's commitment to double Canada Summer Job placements in summer 2019-20.							
Digital Democracy Project	1	7	0	0	0	0	8
Funding provided to Canadian Heritage for measures to support citizen digital literacy ahead of the 2019 General Election. This initiative will aim to equip Canadians with knowledge of deceptive practices and the tools to navigate the internet and better understand information consumption online more generally.							
Establishing Two New Departments:							
Indigenous Services Canada and Crown-Indigenous Relations and Northern Affairs Canada	40	41	36	19	19	19	175
Funding provided to support the stand-up of the departments of Indigenous Services Canada and Crown-Indigenous Relations and Northern Affairs Canada.							
Veterans Affairs Canada Adjustments for Non-discretionary Cost Fluctuations*	-	-	-	-	-	-	-
Funding adjustments for Veterans Affairs Canada to reflect non-discretionary costs increases or savings based on take-up for benefits.							
Royal Canadian Mounted Police Disability Pension Program Adjustments*	-	-	-	-	-	-	-
Funding adjustments for the Royal Canadian Mounted Police (RCMP) to reflect non-discretionary cost increases for the RCMP disability pension program adjustments.							
Improving the Safety of LGBTQ2+ Communities	0	1	0	0	0	0	1
Funding is provided to Public Safety Canada to support the work of Pride Toronto, particularly as it relates to developing a better understanding of LGBTQ2+ victimization (including hate crimes) and contributing to the implementation of education and prevention tools.							
Funding is also provided to Canadian Heritage to support Pride Toronto's efforts to raise awareness among Canadians about the 50th anniversary of the decriminalization of homosexuality in Canada.							

Table A2.8

Policy Actions Announced since the 2018 Fall Economic Statement¹

millions of dollars

	2018– 2019	2019– 2020	2020– 2021	2021– 2022	2022– 2023	2023– 2024	Total
Growth, Innovation, Infrastructure and the Environment	29	259	270	326	140	97	1,122
Canada Reaches for the Moon and Beyond	0	10	48	67	55	30	209
	Funding provided to the Canadian Space Agency to develop and contribute a smart robotic system – including a third generation artificial intelligence-enabled Canadarm – that will repair and maintain the NASA-led Lunar Gateway, a project that will see humans return to the Moon and set the stage for further exploration to Mars. This investment includes support for a new Lunar Exploration Accelerator Program to help small and medium-sized businesses in Canada develop new technologies to be used and tested in lunar orbit and on the Moon's surface.						
Department of Finance Support for Government Priorities	1	3	3	3	3	3	16
	Funding provided to the Department of Finance to address pressures stemming from an increasing workload that the Department has undertaken in meeting Government priorities.						
Deconstruction of Champlain Bridge	15	86	156	170	0	0	426
	Funding announced in February 2019 for Jacques Cartier and Champlain Bridges Incorporated to deconstruct the Champlain Bridge following the entrance in service of the new bridge – the Samuel de Champlain Bridge.						
Support for Provincial Infrastructure Priorities	6	42	43	43	47	27	208
Less: Year-over-year Reallocation of Funding	-5	-18	-12	16	4	5	-11
	Funding provided to Infrastructure Canada to support provincial infrastructure priorities.						
Reallocating Funding for the Icefields Trail Project	0	0	0	0	-4	-4	-7
	In January 2019, the Minister of Environment and Climate Change announced that the Parks Canada Agency will not be proceeding with the Icefields Trail project in Jasper National Park. The remaining funding has been reallocated towards other priorities, including addressing wildfire damage in Waterton Lakes National Park and undertaking environmental activities at the Sable Island National Park Reserve. The remaining funding for the project has been returned to the fiscal framework.						
Operating Funding for Windsor-Detroit Bridge Authority	0	29	29	28	35	36	157
	Funding provided for the Windsor-Detroit Bridge Authority to manage the Gordie Howe International Bridge project. This will ensure the corporation has the required resources for project delivery during the construction period.						
Restoring Rail Service to Churchill, Manitoba	10	0	0	0	0	0	10
	Financing provided by Export Development Canada via the Canada Account for the acquisition, repairs and operation required by the Hudson Bay Railway Company, the Hudson Bay Port Company, and the Churchill Marine Tank Farm.						
Response to Intercity Bus Service Disruptions in Western Canada	3	8	5	0	0	0	15
	Funding provided to Western Economic Diversification Canada and Crown-Indigenous Relations and Northern Affairs Canada to support communities affected by the cancellation of Greyhound Canada's bus service in Western Canada. This will allow for service to affected communities to continue where no other service provider has emerged.						
Supporting Small and Medium-Sized Businesses that Produce and Use Steel and Aluminum	0	100	0	0	0	0	100
	Funding provided to the regional development agencies to support small and medium-sized enterprises that are either producers or downstream users of steel and aluminum. This is part of the Government's continued efforts to defend and protect the interests of Canadian workers and businesses facing U.S. Section 232 tariffs on Canadian steel and aluminum exports.						
Labour Markets, Health, Safety and Economic Prosperity of Canadians	113	24	0	0	0	0	137

Table A2.8

Policy Actions Announced since the 2018 Fall Economic Statement¹

millions of dollars

	2018– 2019	2019– 2020	2020– 2021	2021– 2022	2022– 2023	2023– 2024	Total
Trans Mountain Pipeline Consultations and National Energy Board Reconsideration	25	29	0	0	0	0	55
Less: NEB Cost Recovery	-8	-1	0	0	0	0	-9
Less: Funds Sourced from Existing Departmental Resources	-5	-5	0	0	0	0	-10
Funding provided to Natural Resources Canada, Fisheries and Oceans Canada, Transport Canada, Crown-Indigenous Relations and Northern Affairs Canada, Indigenous Services Canada, and the National Energy Board (NEB) to re-initiate consultations on the proposed Trans Mountain Pipeline Expansion Project and to support NEB reconsideration of the project. Funding provided to the NEB will be fully cost-recovered from industry.							
Emergency Management Assistance Program	102	0	0	0	0	0	102
Funding provided to Indigenous Services Canada to support the Emergency Management Assistance Program with the costs of response and recovery activities on reserve following an emergency event.							
Trade, International Relations and Security	24	58	36	20	19	19	176
Expo 2020	12	9	14	4	0	0	40
Less: Year-over-year Reallocation of Funding	-12	12	3	-3	0	0	0
Funding provided to Global Affairs Canada for Canada's participation in World Expo 2020, to be hosted in Dubai. This will be an opportunity to showcase Canada as a destination for trade, investment, tourism and culture, to a large international audience.							
Global Affairs Canada Adjustments for Non-Discretionary Cost Fluctuations	24	37	19	19	19	19	136
Funding provided to Global Affairs Canada for non-discretionary cost increases affecting missions abroad, such as changes in exchange rates and inflation. This will allow the Government to maintain its high standards for the delivery of overseas operations.							
(Net) fiscal impact of non-announced measures	1,197	450	165	172	-25	-27	1,932
The net fiscal impact of measures that are not announced is presented at the aggregate level, and would include provisions for anticipated Cabinet decisions not yet made and funding decisions related to national security, commercial sensitivity, collective bargaining and litigation issues.							
Grand Total	1,409	968	571	602	216	171	3,937

Note: Totals may not add due to rounding.

¹The Government's spending plans are generally laid out in the annual budget. Due to operational reasons, some funding decisions may be required between budgets. All such "off-cycle" funding decisions taken since the 2018 Fall Economic Statement that are not discussed in the previous chapters are detailed in this table.

*Public Sector accounting rules require that the present value of all increased future payments to eligible recipients be recognized up-front when changes are made to benefit plans as well as on an annual basis based on actuarial forecasts. As such, funding adjustments on an accrual basis have already been accounted for. The actual cost of adjustments for approved benefits for all eligible recipients is reflected in the cash table (see Table A2.10)

4.2 Other Budget 2019 Measures (Not Included in Previous Chapters)

Table A2.9

Other Budget 2019 Measures

millions of dollars

	2018– 2019	2019– 2020	2020– 2021	2021– 2022	2022– 2023	2023– 2024	Total
Government Operations, Fairness and Openness	0	453	237	244	239	275	1,448
Better Digital Services for Canadians	0	0	12	12	0	0	24
Funding to extend the mandate of the Canadian Digital Service, which works with federal organizations to design, prototype and build better digital services for Canadians.							
Insuring Income Replacement Benefits for Medically Released Members of the Forces	0	182	182	182	182	182	910
Funding to cover anticipated costs under the Service Income Security Insurance Plan and Long-term Disability							
Federal Public Service Dental Plan Amendments	0	11	14	15	15	16	71
To implement plan amendments as a result of an arbitral decision on negotiations for the Public Service Dental Care Plan							
Maintaining Service Levels of the Controlled Goods Program	0	4	4	4	0	0	12
Funding provided to Public Services and Procurement Canada to maintain the Controlled Goods Program, which oversees the examination, possession and transfer of controlled goods (primarily defence weaponry) within Canada.							
Industrial Security Systems Transformation Project	0	2	1	1	6	6	16
Funding provided to Public Services and Procurement Canada to upgrade the current aging information technology systems that support the Contract Security and the Controlled Goods Programs with a single unified solution that will provide industry with a self-service electronic interface with the federal government.							
Cost and Profit Assurance Program	0	3	3	3	0	0	9
Funding provided to Public Services and Procurement Canada to provide clarity to businesses (primarily to those with defence contracts) and to ensure that procurement continues to be fair and transparent to both Canadian businesses and taxpayers.							
Predictable Capital Funding	0	3	11	20	45	80	158
Funding provided to Public Services and Procurement Canada to improve the management of its portfolio of assets. Proposed projects include the rehabilitation of the Alaska Highway, and the replacement of the breaker transformation distribution system at the Sinclair Center in Vancouver.							
Real Property Repairs and Maintenance	0	275	0	0	0	0	275
Funding provided to Public Services and Procurement Canada's Federal Accommodation Program to maintain current office accommodation and related real property service levels to federal departments and agencies.							

Table A2.9
Other Budget 2019 Measures
millions of dollars

	2018– 2019	2019– 2020	2020– 2021	2021– 2022	2022– 2023	2023– 2024	Total
Supporting the Canadian Human Rights Commission and Access to Justice	0	1	1	1	1	1	4
	Funding proposed for the Canadian Human Rights Commission to implement a modern and streamlined case management system. The new system will better support the operational needs of the Commission, as well as access to justice for Canadians.						
Supporting the Delivery of Justice through the Courts Administration Service	0	2	2	2	5	3	13
	Funding proposed for the Courts Administration Service to increase capacity to translate Federal Court decisions and to relocate the federal courthouse in Montreal.						
Protecting the Privacy of Canadians	0	5	5	4	4	4	22
	Funding proposed for the Office of the Privacy Commissioner to enhance the Office's capacity, including its ability to engage with Canadian individuals and businesses, address complaints and respond to privacy issues as they occur.						
Supporting the Public Prosecution Service of Canada	0	4	21	21	21	21	89
	Funding proposed for the Public Prosecution Service of Canada to support the continued fulfillment of its responsibilities to carry out the prosecution of criminal offences under federal law.						
Support for Access to Information	0	3	0	0	0	0	3
	Funding proposed for the Office of the Information Commissioner to enable it to continue resolving new and existing complaints regarding access to information requests.						
Improving Labour Standards in CPTPP Partner Countries	0	1	1	1	1	1	3
<i>Less: Funds Sourced from Existing Departmental Resources</i>	0	-1	-1	-1	-1	-1	-3
	Funding proposed for Employment and Social Development Canada to promote, monitor and enforce labour standards in CPTPP partner countries. To be sourced from existing departmental reference levels.						
Ensuring Income Security Benefits are Fair and Efficient	0	32	36	35	15	15	133
<i>Less: Foregone Revenues</i>	0	13	38	39	41	42	173
<i>Projected Savings</i>	0	-97	-99	-101	-101	-101	-499
	Funding proposed to Employment and Social Development Canada to support enhanced oversight and assessment of benefit entitlements and detect fraud and abuse. As ESDC has a proven track record for successfully recovering overpayments, Budget 2019 accounts for the expected revenue impact of approximately \$500 million over five years.						

Table A2.9

Other Budget 2019 Measures

millions of dollars

	2018– 2019	2019– 2020	2020– 2021	2021– 2022	2022– 2023	2023– 2024	Total
Supporting Judicial Advisory Committee Members	0	1	1	1	1	1	6
Funding is proposed for the Office of the Commissioner for Federal Judicial Affairs to provide a per diem to non-judicial members of Judicial Advisory Committees. Judicial Advisory Committees help to inform federal judicial appointments, and play a key role in upholding a judicial appointment process that is fair, neutral, and conscious of the diversity of Canada.							
Canadian Energy Regulator Transition Costs	0	4	0	0	0	0	4
Less: Costs to Be Recovered	0	-1	0	0	0	0	-1
Funding proposed for the National Energy Board to support its transition to its new role as the Canadian Energy Regulator.							
Fisheries and Oceans Canada – Advancing Reconciliation	0	5	5	4	4	4	23
Funding is proposed for Fisheries and Oceans Canada to support its capacity to work with Indigenous groups and advance reconciliation.							
Growth, Innovation, Infrastructure and the Environment	0	459	650	152	116	64	1,442
Canada's Marine Safety Response	0	15	15	15	0	0	46
Less: Funds Sourced from Existing Departmental Resources	0	0	0	0	0	0	-1
Funding proposed for the Canadian Coast Guard, Transport Canada and Environment and Climate Change Canada to continue to improve marine environmental response planning. This brings together federal, provincial and Indigenous partners to jointly plan for a quicker and more efficient response to marine pollution incidents. Fast, efficient responses help to ensure that if incidents happen, our environment and communities stay safe.							
Ensuring Continued Access to US Markets for Canadian Meat Products	0	13	13	0	0	0	26
Funding proposed for the Canadian Food Inspection Agency to maintain its Daily Shift Inspection Presence Program. This program provides additional food safety inspection resources at all Canadian meat processing facilities to ensure continued access to the U.S. market for Canadian meat products.							
Protecting Against Bovine Spongiform Encephalopathy in Canada	0	40	40	40	40	40	199
Funding proposed for the Canadian Food Inspection Agency, Health Canada, and the Public Health Agency of Canada to maintain world class inspection programs to protect against Bovine Spongiform Encephalopathy in the Canadian cattle herd. These programs help ensure that Canadian cattle and beef products are safe for consumers at home and abroad, thereby protecting the health of Canadians and maintaining access to international markets for Canadian cattle and beef products.							
Safe and Secure Road and Rail Transportation	0	73	72	61	57	1	264
Funding proposed for Transport Canada to continue oversight and regulation of motor vehicle safety, railway safety and transportation of dangerous goods, and to support the continuation of passenger rail services to remote communities with no alternative means of surface transportation. This will support safe transportation on Canadian roads and railways, and access to transportation services for remote communities.							

Table A2.9

Other Budget 2019 Measures

millions of dollars

	2018– 2019	2019– 2020	2020– 2021	2021– 2022	2022– 2023	2023– 2024	Total
Delivering Better Service for Air Travellers	0	296	871	7	0	0	1,175
Less: Costs to be Recovered	0	0	0	0	-12	-16	-27
Less: Funds Sourced from Existing Departmental Resources	0	0	-426	-32	-32	-32	-523
Funding is proposed for the Canadian Air Transport Security Authority (CATSA), Transport Canada and the Royal Canadian Mounted Police to ensure that air travellers and workers at airports are effectively screened. The Government also proposes to provide funding for the Canadian Transportation Agency and Transport Canada in support of transitioning CATSA to an independent, not-for-profit entity. The Government intends to introduce legislation to establish this entity.							
Cleaning-up Federal Contaminated Sites	0	0	22	22	22	22	87
Funding is proposed to renew the Federal Contaminated Sites Action Plan to continue work to address contaminated sites for which the federal government has responsibility.							
Implementing a Federal Carbon Offset System	0	3	4	3	3	3	15
Less: Funds Sourced from Existing Departmental Resources	0	-2	-2	-2	-2	-2	-11
Providing compliance flexibility for participating facilities is an important feature of the federal output-based carbon pollution pricing system. To support Canada's actions to reduce greenhouse gas emissions, funding is proposed for Environment and Climate Change Canada to develop the information technology infrastructure and tracking systems required for a national carbon offset credit system.							
Supporting Capital Assets in Canada's National Parks, Conservation Areas and Historic Sites	0	0	3	5	4	7	19
Funding proposed for capital projects in national parks, national marine conservation areas and national historic sites administered by the Parks Canada Agency. The Government will also introduce amendments to the Parks Canada Agency Act to create a standard, one-year appropriation authority for the Agency to ensure that Canadians continue to enjoy Canada's natural treasures in our national parks, heritage sites, and marine conservation areas and to better manage heritage, tourism, waterway, and highway assets.							
Enhancing Canada's Global Arctic Leadership	0	6	7	7	7	7	34
Funding proposed for Global Affairs Canada to enhance Canada's global Arctic leadership, by strengthening Canada's engagement in the Arctic Council, creating the first Arctic Council-related permanent secretariat in Canada (for the Sustainable Development Working Group), increasing the participation of northerners in Arctic Council and Arctic research activities, and providing northern youth with international learning opportunities.							
Increased Funding for the Regional Development Agencies	0	9	13	0	0	0	23
Funding proposed for Atlantic Canada Opportunities Agency, Canada Economic Development for Quebec Regions, and Western Economic Diversification Canada that is equivalent to repayable contributions collected in 2018-19, based on current estimates. Access to funding will be based on actual repayments in 2018-19. In addition, permanent funding of \$184.5 million per year (\$97.8 million per year on an accrual basis), starting in 2024-25, to the Federal Development Agency of Southern Ontario to support innovation and economic growth in southern Ontario.							

Table A2.9

Other Budget 2019 Measures

millions of dollars

	2018– 2019	2019– 2020	2020– 2021	2021– 2022	2022– 2023	2023– 2024	Total
Preparing for a New Generation of Wireless Technology	0	7	19	27	30	35	117
	Funding proposed for Innovation, Science and Economic Development Canada to continue to effectively manage wireless networks in Canada. This will support equipment modernization and the development of innovative tools and systems to enhance ongoing efforts to minimize network interference and verify compliance with health and safety standards, including in the context of the new generation of wireless networks, referred to as 5G.						
Labour Markets, Health, Safety and Economic Prosperity of Canadians	0	334	327	38	37	35	771
Supporting the Harbourfront Centre	0	0	0	7	7	7	20
	Funding proposed for Canadian Heritage to support the operations of the Harbourfront Centre in Toronto and to help the Centre to continue to provide internationally-renowned programming in arts, culture, education and recreation.						
Boosting the Capacity of the Federal Mediation and Conciliation Services	0	1	1	1	1	1	5
	Funding proposed for Employment and Social Development Canada to support the hiring of additional mediators to strengthen the Federal Mediation and Conciliation Service's overall advisory capacity.						
Providing Health Care to Refugees and Asylum Seekers	0	125	158	0	0	0	283
	Funding proposed for Immigration, Refugees and Citizenship Canada to provide increased funding for the Interim Federal Health Program. This will promote better public health outcomes for both Canadians and those seeking asylum in Canada.						
Modernizing Canada's Border Operations	0	127	134	24	23	24	332
<i>Less: Funds Previously Provisioned in the Fiscal Framework</i>	<i>0</i>	<i>-21</i>	<i>-17</i>	<i>-1</i>	<i>-2</i>	<i>-3</i>	<i>-44</i>
	Funding proposed for the Canada Border Services Agency to support effective border management and enforcement, and to modernize border operations. This funding will facilitate the safe and timely flow of transactions at the border.						
Support for the Correctional Service of Canada	0	95	0	0	0	0	95
	Funding proposed for the Correctional Service of Canada to support existing operations. The Correctional Service of Canada is responsible for the safe and humane custody of offenders serving sentences of two years or more and for assisting in offender rehabilitation, encouraging offenders to become law-abiding citizens when they return to the community.						
Protecting the Rights and Freedoms of Canadians	0	5	6	7	8	6	32
	Funding is proposed for the Canadian Security Intelligence Service to continue efforts to modernize its framework for compliance with Canadian law, Ministerial direction, and Federal Court requirements, as well as CSIS' internal policies, in a manner that protects national security interests and respects the rights and freedoms of Canadians.						
Enhancing Indigenous Consultation and Capacity Support	0	2	2	0	0	0	3
	Funding proposed for Crown-Indigenous Relations and Northern Affairs Canada to support Indigenous partners' development of, and participation in, consultation processes with the Government of Canada through Consultation Protocols.						

Table A2.9

Other Budget 2019 Measures

millions of dollars

	2018– 2019	2019– 2020	2020– 2021	2021– 2022	2022– 2023	2023– 2024	Total
On-Reserve Income Assistance: Case Management and Pre-Employment Support	0	0	39	0	0	0	39
Funding proposed for Indigenous Services Canada to support individuals to transition from income assistance to employment and education.							
Matrimonial Real Property Implementation Support Program	0	0	3	0	0	0	3
Funding proposed for Crown-Indigenous Relations and Northern Affairs Canada to support First Nations in developing their own community-specific matrimonial real property laws, and to provide targeted training and awareness activities to law enforcement and members of the judiciary.							
Improving the Health and Safety of Canadian Workers	0	1	1	1	1	1	4
Funding provided to the Canadian Centre for Occupational Health and Safety (CCOHS) in support of its Employee Benefit Plan premiums. This will allow the CCOHS to continue its important work to safeguard and improve the physical and mental health of Canada's workers.							
Trade, International Relations and Security	248	5	4	1	1	1	260
Supporting the World Bank	248	0	0	0	0	0	248
Funding to purchase Canada's International Bank for Reconstruction and Development (IBRD) shares, which will increase the World Bank's financial capacity and allow the institution to provide more financing for developing countries to promote sustainable economic growth.							
Administration of New Free Trade Agreement Measures and Steel Safeguards	0	5	4	1	1	1	12
Funding proposed for Global Affairs Canada for the implementation of new trade openings and control measures under the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and Canada-United States-Mexico Agreement (CUSMA). These trade agreements will benefit Canadian companies, providing new trade opportunities in the Asia-Pacific region, as well as reinforcing and modernizing trade relationships across North America. Funding is also proposed for Global Affairs Canada for the administration of potential import safeguards on certain steel products.							
(Net) fiscal impact of measures discussed in Tax Measures: Supplementary Information and Strengthening and Modernizing Canada's Financial Sector (Annex 4)	-	1	4	4	4	5	18
(Net) fiscal impact of non-announced measures	-267	-533	-323	-2,056	-978	-1,585	-5,742
The net fiscal impact of measures that are not announced is presented at the aggregate level, and would include provisions for anticipated Cabinet decisions not yet made and funding decisions related to national security, commercial sensitivity, collective bargaining and litigation issues.							
Grand Total	-18	718	898	-1,617	-580	-1,206	-1,804

Note: Totals may not add due to rounding

Table A2.10

Policy Actions since the 2018 Fall Economic Statement by Department (estimates basis)
 millions of dollars (cash basis)

	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	2023- 2024	Total (Cash)
Canadian Heritage	1	7	0	0	0	0	8
Digital Democracy Project	1	7	0	0	0	0	8
Improving the Safety of LGBTQ2+ Communities	0	0.3	0	0	0	0	0.3
Canadian Space Agency	0	10	61	221	265	240	797
Canada Reaches for the Moon and Beyond	0	10	61	221	265	240	797
Crown-Indigenous Relations and Northern Affairs Canada	7	8	5	0	0	0	20
Establishing Two New Departments: Indigenous Services Canada and Crown-Indigenous Relations and Northern Affairs Canada	5	5	4	0	0	0	14
Response to Intercity Bus Service Disruptions in Western Canada	2	3	1	0	0	0	5
Trans Mountain Pipeline Consultations and National Energy Board	0	1	0	0	0	0	1
Reconsideration							
Department of Finance Canada	1	3	3	3	3	3	16
Department of Finance Support for Government Priorities	1	3	3	3	3	3	16
Employment and Social Development Canada	4	62	0	0	0	0	66
Canada Summer Jobs 2019-20	4	62	0	0	0	0	66
Fisheries and Oceans Canada	2	3	0	0	0	0	5
Trans Mountain Pipeline Consultations and National Energy Board	2	3	0	0	0	0	5
Reconsideration							
Global Affairs Canada	36	59	36	21	19	19	176
Expo 2020	0	22	17	2	0	0	40
Global Affairs Canada Adjustments for Non-Discretionary Fluctuations	24	37	19	19	19	19	136
Indigenous Services Canada	137	37	32	19	19	19	263
Emergency Management Assistance Program	102	0	0	0	0	0	102
Establishing Two New Departments: Indigenous Services Canada and Crown-Indigenous Relations and Northern Affairs Canada	35	36	32	19	19	19	160
Trans Mountain Pipeline Consultations and National Energy Board	0	1	0	0	0	0	1
Reconsideration							
Infrastructure Canada	1	24	30	59	50	33	197
Support for Provincial Infrastructure Priorities	1	24	30	59	50	33	197
Regional Development Agencies (allocation to be determined)	0	100	0	0	0	0	100
Supporting Small and Medium-Sized Businesses that Produce and Use Steel and Aluminum	0	100	0	0	0	0	100
Jacques Cartier and Champlain Bridge Inc.	15	86	156	170	0	0	426
Deconstruction of the Champlain Bridge	15	86	156	170	0	0	426
National Energy Board	8	1	0	0	0	0	9
Trans Mountain Pipeline Consultations and National Energy Board	8	1	0	0	0	0	9
Reconsideration							
Natural Resources Canada	7	17	0	0	0	0	24
Trans Mountain Pipeline Consultations and National Energy Board	7	17	0	0	0	0	24
Reconsideration							
Parks Canada	0	0	-16	0	0	0	-15
Reallocating Funding for the Icefields Trail Project	0	0	-16	0	0	0	-15
Parole Board of Canada	0	1	0	0	0	0	1
Expediting Access to Pardons for Simple Cannabis Possession Convictions	0	1	0	0	0	0	1
Public Safety Canada	0	0	0	0	0	0	1
Improving the Safety of LGBTQ2+ Communities	0	0	0	0	0	0	1
Public Services and Procurement Canada	1	64	64	64	64	64	319
Supporting Price and Volume Fluctuations Related to Real Property Assets	1	64	64	64	64	64	319
Royal Canadian Mounted Police	29	93	0	0	0	0	121
Expediting Access to Pardons for Simple Cannabis Possession Convictions	0	1	0	0	0	0	1
Royal Canadian Mounted Police Disability Pension Program							
Adjustments	29	92	0	0	0	0	120
Transport Canada	2	3	0	0	0	0	4
Trans Mountain Pipeline Consultations and National Energy Board	2	3	0	0	0	0	4
Reconsideration							
Veterans Affairs Canada	323	240	0	0	0	0	563
Veterans Affairs Canada Adjustments for Non-discretionary Cost Fluctuations	323	240	0	0	0	0	563
Western Economic Diversification Canada	1	5	4	0	0	0	10
Response to Intercity Bus Service Disruptions in Western Canada	1	5	4	0	0	0	10
Windsor-Detroit Bridge Authority	0	29	29	28	35	36	157
Operating Funding for Windsor-Detroit Bridge Authority	0	29	29	28	35	36	157
Total – Voted Budgetary Measures Since the 2018 Fall Economic Statement by Department	568	869	415	584	455	416	3,307
Other	4	-18	-12	0	0	-3	-29
Total - All Policy Actions Since the 2018 Fall Economic Statement	572	851	403	584	455	413	3,278

Note: Totals may not add due to rounding

Note: Totals may not add due to rounding

Table A2.11

Budget 2019 Measures by Department (estimates basis)
millions of dollars (cash basis)

	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	2023- 2024	Total (Cash)
Administrative Tribunals Support Service of Canada	0	1	1	1	1	1	4
Resolving Income Security Program Disputes More Quickly and Easily	0	1	1	1	1	1	4
Agriculture and Agri-Food Canada	0	19	19	19	19	19	95
A Food Policy for Canada	0	19	19	19	19	19	95
Atlantic Canada Opportunities Agency	0	27	13	9	9	9	67
A Just Transition for Coal Power Workers and Communities	0	0	9	9	9	9	36
Launching a Federal Strategy on Jobs and Tourism	0	2	4	0	0	0	6
Increased Funding for the Regional Development Agencies	0	25	0	0	0	0	25
Canada Border Services Agency	0	262	337	193	188	276	1,257
Addressing the Challenges of African Swine Fever	0	6	9	6	6	6	32
Enhancing Accountability and Oversight of the CBSA	0	1	2	3	3	3	11
Enhancing the Integrity of Canada's Borders and Asylum System	0	106	158	102	8	8	382
Helping Travellers Visit Canada	0	13	17	0	0	0	30
Modernizing Canada's Border Operations	0	135	148	76	159	247	765
Protecting People from Unscrupulous Immigration Consultants	0	2	2	2	2	2	10
Strengthening Canada's AML-ATF Regime	0	0	2	5	11	10	28
Canada Economic Development for Quebec Regions	0	3	57	0	0	0	60
Launching a Federal Strategy on Jobs and Tourism	0	3	6	0	0	0	9
Increased Funding for the Regional Development Agencies	0	0	51	0	0	0	51
Canada Mortgage and Housing Corporation	0	33	61	110	144	159	507
Expanding the Rental Construction Financing Initiative	0	18	40	84	115	129	385
Introducing the First-Time Home Buyer Incentive	0	15	21	27	29	30	121
Canada Revenue Agency	0	61	77	77	76	75	367
Access to Charitable Tax Incentives for Not-for-Profit Journalism	0	1	3	2	2	1	9
Ensuring Proper Payments for Public Servants	0	9	0	0	0	0	9
Improving Access to the Canada Workers Benefit Throughout the Year	0	4	1	0	0	0	4
Improving Client Services at the Canada Revenue Agency	0	9	11	12	12	8	50
Improving Tax Compliance	0	29	53	53	52	54	241
Taking Action to Enhance Tax Compliance in the Real Estate Sector	0	9	10	10	10	10	50
Tax Credit for Digital News Subscriptions	0	0	1	1	1	1	3
Canadian Air Transport Security Authority	0	288	309	0	0	0	597
Delivering Better Service for Air Travellers	0	288	309	0	0	0	597
Canadian Centre for Occupational Health and Safety	0	1	1	1	1	1	4
Improving the Health and Safety of Canadian Workers	0	1	1	1	1	1	4
Canadian Food Inspection Agency	0	56	60	48	50	51	266
A Food Policy for Canada	0	3	6	5	6	5	24
Bringing Innovation to Regulations	0	3	4	5	7	8	27
Ensuring Continued Access to US Markets for Canadian Meat Products	0	13	13	0	0	0	26
Protecting Against Bovine Spongiform Encephalopathy in Canada	0	38	38	38	38	38	189
Canadian Heritage	0	83	110	108	109	131	541
Ensuring a Safe and Healthy Sport System	0	6	6	6	6	6	30
Expanding Support for Artists and Cultural Events	0	31	31	0	0	0	61
Inclusion of Canadians with Visual Impairments and Other Print Disabilities	0	4	5	6	4	2	23
Introducing a New Anti-Racism Strategy	0	17	15	13	0	0	45
National Day for Truth and Reconciliation	0	5	5	0	0	0	10
Protecting Democracy	0	5	5	5	5	0	19
Supporting the Harbourfront Centre	0	0	0	7	7	7	20
Preserving, Promoting and Revitalizing Indigenous Languages	0	15	44	72	87	116	334

Table A2.11

Budget 2019 Measures by Department (estimates basis)
millions of dollars (cash basis)

	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	Total (Cash)
Canadian Human Rights Commission	0	1	1	1	1	1	4
Supporting the Canadian Human Rights Commission and Access to Justice	0	1	1	1	1	1	4
Canadian Institutes of Health Research	0	6	8	11	11	11	46
Paid Parental Leave for Student Researchers	0	2	2	3	3	3	14
Supporting Graduate Students Through Research Scholarships	0	4	6	7	7	7	32
Canadian Northern Economic Development Agency	0	15	16	18	23	23	95
A Food Policy for Canada	0	3	3	3	3	3	15
Launching a Federal Strategy on Jobs and Tourism	0	2	3	0	0	0	5
Strong Arctic and Northern Communities	0	10	10	15	20	20	75
Canadian Radio-television and Telecommunications Commission	0	3	3	5	0	0	11
Protecting Canada's Critical Infrastructure from Cyber Threats	0	3	3	5	0	0	11
Canadian Security Intelligence Service	0	24	26	13	14	20	97
Enhancing the Integrity of Canada's Borders and Asylum System	0	2	4	0	0	0	6
Helping Travellers Visit Canada	0	1	2	0	0	0	3
Protecting Canada's National Security	0	3	3	3	3	3	16
Protecting Democracy	0	0	2	3	6	12	23
Protecting the Rights and Freedoms of Canadians	0	9	7	7	5	5	33
Renewing Canada's Middle East Strategy	0	8	8	0	0	0	17
Canadian Transportation Agency	0.0	0.0	0.1	0.1	0.1	0.1	0.3
Delivering Better Service for Air Travellers	0.0	0.0	0.1	0.1	0.1	0.1	0.3
Civilian Review and Complaints Commission for the RCMP	0	0	2	3	4	4	14
Enhancing Accountability and Oversight of the CBSA	0	0	2	3	4	4	14
Communications Security Establishment Canada	0	18	26	26	24	24	118
Protecting Canada's Critical Infrastructure from Cyber Threats	0	9	18	22	22	22	92
Protecting Canada's National Security	0	2	2	2	2	2	12
Protecting Democracy	0	2	1	1	0	0	4
Renewing Canada's Middle East Strategy	0	5	5	0	0	0	9
Correctional Service Canada	0	95	0	0	0	0	95
Support for the Correctional Service of Canada	0	95	0	0	0	0	95
Courts Administration Service	0	5	6	7	15	3	37
Enhancing the Integrity of Canada's Borders and Asylum System	0	3	2	0	0	0	5
Supporting the Delivery of Justice through the Courts Administration Service	0	3	4	7	15	3	33
Crown-Indigenous Relations and Northern Affairs Canada	0	934	1,546	1,520	433	419	4,853
Advancing Reconciliation by Settling Specific Claims	0	883	1,078	1,148	8	8	3,125
Better Information for Better Services	0	0	0	11	12	7	29
Enhancing Indigenous Consultation and Capacity Support	0	2	2	0	0	0	3
Honouring Missing Residential School Children	0	8	11	15	0	0	34
Indigenous Youth and Reconciliation	0	5	5	5	0	0	15
Matrimonial Real Property Implementation Support Program	0	0	3	0	0	0	3
More Connectivity = More Affordable Electricity	0	6	6	6	0	0	18
National Council for Reconciliation	0	0	127	0	0	0	127
Northern Abandoned Mine Reclamation Program	0	0	181	196	270	273	921
Supporting Indigenous Business Development	0	26	26	26	26	26	129
Supporting Indigenous Entrepreneurs Through the Indigenous Growth Fund	0	0	2	5	10	0	17
Loan Forgiveness and Reimbursement for Comprehensive Claims Negotiations	0	0	98	98	98	98	393
Strong Arctic and Northern Communities	0	5	8	11	9	8	40

Table A2.11

Budget 2019 Measures by Department (estimates basis)

millions of dollars (cash basis)

	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	Total (Cash)
Department of Finance Canada	0	1	13	1	1	1	17
Introducing a FCAC Governance Council	0	0	0	0	0	0	1
Protecting Canadians' Pensions	0	0	13	0	0	0	13
Strengthening Canada's AML-ATF Regime	0	1	1	1	1	1	4
Department of Justice Canada	0	27	34	32	13	12	118
Bringing Innovation to Regulations	0	7	8	7	5	3	30
Enhancing the Integrity of Canada's Borders and Asylum System	0	17	18	17	0	0	52
Giving Canadians Better Access to Public Legal Education and Information	0	2	2	2	2	2	8
Supporting Access to Family Justice in the Official Language of One's Choice	0	0	4	4	4	4	17
Supporting Renewed Legal Relationships With Indigenous Peoples	0	1	2	3	2	3	10
Destination Canada	0	5	0	0	0	0	5
Launching a Federal Strategy on Jobs and Tourism	0	5	0	0	0	0	5
Employment and Social Development Canada	0	333	447	387	336	347	1,851
Boosting the Capacity of the Federal Mediation and Conciliation Services	0	1	1	1	1	1	5
Empowering Seniors in their Communities	0	20	20	20	20	20	100
Enhancing Supports for Apprenticeship	0	3	13	10	10	10	46
Ensuring Income Security Benefits are Fair and Efficient	0	32	36	35	15	15	133
Establishing a Permanent Global Talent Stream	0	6	7	7	7	8	35
Expanding the Canada Service Corps	0	35	57	68	71	84	315
Expanding the Student Work Placement Program	0	76	113	148	148	148	631
Additional work-Integrated learning Opportunities	0	0	20	30	50	50	150
Improving Gender and Diversity Outcomes in Skills Programs	0	1	1	1	1	1	5
Improving the Economic Security of Low-Income Seniors	0	0	1	0	0	0	1
Inclusion of Canadians with Visual Impairments and Other Print Disabilities	0	2	0	0	0	0	2
Investing in Service Canada	0	91	87	49	2	0	229
Resolving Income Security Program Disputes More Quickly and Easily	0	0	1	1	1	1	4
Supporting Black Canadian Communities	0	5	5	5	5	5	25
Supporting Indigenous Entrepreneurs Through the Indigenous Growth Fund	0	0	50	0	0	0	50
Modernizing the Youth Employment Strategy	0	30	5	5	5	5	50
Supporting Employment for Persons with Intellectual Disabilities Including Autism Spectrum Disorders	0	4	4	4	0	0	12
Supporting Indigenous Post-Secondary Education	0	3	3	3	0	0	9
Participation of Social Purpose Organizations in the Social Finance Market	0	25	25	0	0	0	50
Environment and Climate Change Canada	0	26	14	20	30	16	107
Canada's Marine Safety Response	0	3	3	3	0	0	8
Ensuring Better Disaster Management Preparation and Response	0	1	1	1	1	1	6
Implementing a Federal Carbon Offset System	0	5	1	0	0	0	6
Strong Arctic and Northern Communities	0	18	9	16	29	15	87
Federal Economic Development Agency for Southern Ontario	0	4	8	0	0	0	12
Launching a Federal Strategy on Jobs and Tourism	0	4	8	0	0	0	12
Permanent Funding (\$185 million annually starting in 2024-25)	-	-	-	-	-	-	-
Financial Transactions and Reports Analysis Centre of Canada	0	4	5	5	4	3	20
Strengthening Canada's AML-ATF Regime	0	4	5	5	4	3	20

Table A2.11

Budget 2019 Measures by Department (estimates basis)

millions of dollars (cash basis)

	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	Total (Cash)
Fisheries and Oceans Canada	0	16	17	16	4	4	57
Canada's Marine Safety Response	0	11	11	11	0	0	34
Fisheries and Oceans Canada - Advancing Reconciliation	0	5	5	4	4	4	23
Global Affairs Canada	0	270	262	9	8	108	658
Administration of new free trade agreement measures and steel safeguards	0	11	3	0	0	0	15
Increasing Canada's International Assistance Envelope	0	0	0	0	0	100	100
Protecting Canada's National Security	0	1	1	1	1	1	7
Protecting Democracy	0	1	1	1	0	0	2
Renewing Canada's Middle East Strategy	0	250	250	0	0	0	500
Enhancing Canada's Global Arctic Leadership	0	6	7	7	7	7	34
Health Canada	0	51	98	107	580	577	1,413
Brain Canada Foundation	0	0	20	20	0	0	40
Bringing Innovation to Regulations	0	25	26	25	14	14	103
Enhancing the Federal Response to the Opioid Crisis in Canada	0	7	11	6	4	2	31
Introducing the Canadian Drug Agency	0	5	10	10	10	0	35
Making High-Cost Drugs for Rare Diseases More Accessible	0	0	0	0	500	500	1,000
Ovarian Cancer Canada	0	1	2	2	2	2	10
Protecting Against Bovine Spongiform Encephalopathy in Canada	0	1	1	1	1	1	6
Supporting a Safe and Non-Discriminatory Approach to Plasma Donation	0	1	2	0	0	0	2
Terry Fox Research Institute	0	11	20	32	39	48	150
Creating a Pan-Canadian Database for Organ Donation and Transplantation	0	1	6	10	10	10	37
Immigration and Refugee Board of Canada	0	57	151	0	0	0	208
Enhancing the Integrity of Canada's Borders and Asylum System	0	57	151	0	0	0	208
Immigration, Refugees and Citizenship Canada	0	339	341	103	44	41	869
Enhancing the Integrity of Canada's Borders and Asylum System	0	160	128	95	36	33	452
Improving Immigration Client Service	0	18	25	0	0	0	43
Helping Travellers Visit Canada	0	24	21	0	0	0	46
Protecting People from Unscrupulous Immigration Consultants	0	11	9	8	8	8	45
Providing Health Care to Refugees and Asylum Seekers	0	125	158	0	0	0	283
Indigenous Services Canada	0	695	837	834	441	444	3,250
Better Information for Better Services	0	4	6	6	5	5	26
Continuing Implementation of Jordan's Principle	0	404	404	404	0	0	1,212
Core Governance Support for First Nations	0	24	24	0	0	0	48
Ensuring Better Disaster Management Preparation and Response	0	6	11	11	11	11	48
On Track to Eliminate Boil Water Advisories On-Reserve	0	67	149	164	174	185	739
Improving Assisted Living and Long Term Care	0	40	3	0	0	0	44
Improving Emergency Response On-Reserve	0	33	50	58	57	61	259
On-Reserve Income Assistance: Case Management and Pre-Employment Support	0	0	39	0	0	0	39
Safe and Accessible Spaces for Urban Indigenous Peoples	0	4	9	21	21	6	60
Supporting Indigenous Post-Secondary Education	0	79	96	116	119	121	531
Supporting Inuit Children	0	30	40	50	50	50	220
Supporting the National Inuit Suicide Prevention Strategy	0	5	5	5	5	5	25
Infrastructure Canada	0	0	63	63	63	63	250
Encouraging Innovation with the Housing Supply Challenge	0	0	63	63	63	63	250

Table A2.11

Budget 2019 Measures by Department (estimates basis)
millions of dollars (cash basis)

	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	Total (Cash)
Innovation, Science and Economic Development Canada	0	93	321	381	367	173	1,335
Access to High-Speed Internet for all Canadians	0	26	162	220	216	92	717
Genome Canada	0	0	32	18	23	19	92
Giving Young Canadians Digital Skills	0	30	30	0	0	0	60
Growing Canada's Advantage in Cyber Security	0	0	20	20	20	20	80
Let's Talk Science	0	0	5	5	0	0	10
Preparing for a New Generation of Wireless Technology	0	7	20	70	69	33	199
Protecting Canada's Critical Infrastructure from Cyber Threats	0	1	1	1	0	0	3
Protecting Canada's National Security	0	1	1	1	1	1	5
Supporting Innovation in the Oil and Gas Sector Through Collaboration	0	10	30	30	30	0	100
Supporting Renewed Legal Relationships With Indigenous Peoples	0	3	3	3	0	0	9
Supporting the Next Generation of Entrepreneurs	0	7	8	8	8	8	38
Supporting the work of the Business/Higher Education Roundtable	0	6	6	6	0	0	17
Launching a Federal Strategy on Jobs and Tourism (FedNor)	0	2	4	0	0	0	6
National Defence	0	437	477	237	203	203	1,557
Insuring Income Replacement Benefits for Medically Released Members of the Forces	0	182	182	182	182	182	910
Protecting Canada's National Security	0	2	2	2	2	2	12
Renewing Canada's Middle East Strategy	0	199	243	0	0	0	442
Supporting Veterans as They Transition to Post-Service Life	0	19	19	19	19	19	94
Reinforcing Canada's Support for Ukraine	0	34	32	34	0	0	100
National Energy Board	0	4	0	0	0	0	4
Canadian Energy Regulator Transition Costs	0	4	0	0	0	0	4
National Research Council Canada	0	0	39	39	41	38	158
Strengthening Canada's World Class Physics Research	0	0	39	39	41	38	158
Natural Resources Canada	0	43	126	145	143	58	514
Encouraging Canadians to Use Zero Emission Vehicles	0	10	12	35	37	36	130
Engaging Indigenous Communities in Major Resource Projects	0	13	0	0	0	0	13
Ensuring Better Disaster Management Preparation and Response	0	11	21	21	18	18	88
Helping Canada's Forest Sector Innovate and Grow	0	0	84	84	84	0	251
Improving Canadian Energy Information	0	2	3	3	3	3	15
Protecting Canada's Critical Infrastructure from Cyber Threats	0	1	1	1	0	0	3
Strong Arctic and Northern Communities	0	6	6	1	1	1	14
Office of the Commissioner for Federal Judicial Affairs Canada	0	2	2	2	2	2	12
Enhancing the Integrity of Canada's Borders and Asylum System	0	1	1	1	1	1	6
Supporting Judicial Advisory Committee Members	0	1	1	1	1	1	6
Offices of the Information and Privacy Commissioners of Canada	0	8	5	4	4	4	25
Protecting the Privacy of Canadians	0	5	5	4	4	4	22
Support for Access to Information	0	3	0	0	0	0	3
Parks Canada	0	0	143	224	0	0	368
Supporting Capital Assets in Canada's National Parks, Conservation Areas and Historic Sites	0	0	143	224	0	0	368
Privy Council Office	0	0	1	0	0	0	1
Expanding the Work of the LGBTQ2+ Secretariat	0	0	1	0	0	0	1
Public Health Agency of Canada	0	8	18	18	18	17	79
Introducing a National Dementia Strategy	0	3	12	12	12	12	50
Protecting Against Bovine Spongiform Encephalopathy in Canada	0	1	1	1	1	1	4
Supporting a Pan-Canadian Suicide Prevention Service	0	5	5	5	5	5	25

Table A2.11

Budget 2019 Measures by Department (estimates basis)

millions of dollars (cash basis)

	2018-19	2019-20	2020-2021	2021-2022	2022-2023	2023-2024	Total (Cash)
Public Prosecution Service of Canada	0	4	21	21	21	21	89
Supporting the Public Prosecution Service of Canada	0	4	21	21	21	21	89
Public Safety Canada	65	172	129	25	13	13	416
Ensuring Better Disaster Management Preparation and Response	0	158	109	4	4	4	279
Improving Emergency Medical Response in Western Canada	65	0	0	0	0	0	65
Protecting Canada's Critical Infrastructure from Cyber Threats	0	2	2	2	0	0	6
Protecting Canada's National Security	0	2	2	2	2	2	10
Protecting Children from Sexual Exploitation Online	0	4	9	9	0	0	22
Protecting Community Gathering Places from Hate Motivated Crimes	0	2	2	2	2	2	10
Strengthening Canada's AML-ATF Regime	0	3	5	6	5	5	24
Public Services and Procurement Canada	22	1,020	666	862	816	883	4,270
Cost and Profit Assurance Program	0	3	3	3	0	0	9
Ensuring Proper Payments for Public Servants	22	352	89	90	0	0	553
Improving Crossings in Canada's Capital Region	0	6	13	21	12	8	60
Industrial Security Systems Transformation Project	0	8	15	10	2	2	37
Maintaining Service Levels of the Controlled Goods Program	0	4	4	4	0	0	12
Predictable Capital Funding	0	373	542	734	802	873	3,323
Real Property Repairs and Maintenance	0	275	0	0	0	0	275
Royal Canadian Mounted Police	0	123	144	137	137	135	675
Delivering Better Service for Air Travellers	0	3	4	5	0	0	12
Enhancing the Integrity of Canada's Borders and Asylum System	0	18	16	16	15	14	80
Protecting Canada's National Security	0	1	1	1	1	1	6
Strengthening Canada's AML-ATF Regime	0	4	10	15	20	20	69
Support for the Royal Canadian Mounted Police	0	96	112	100	100	100	509
Natural Sciences and Engineering Research Council of Canada	0	6	8	11	11	11	49
Paid Parental Leave for Student Researchers	0	2	2	3	3	3	15
Supporting Graduate Students Through Research Scholarships	0	4	6	8	8	8	34
Shared Services Canada	0	2	3	4	3	3	14
Making Federal Government Workplaces More Accessible	0	2	3	4	3	3	14
Social Sciences and Humanities Research Council of Canada	0	8	10	13	13	13	56
Paid Parental Leave for Student Researchers	0	1	2	2	2	2	9
Supporting Graduate Students Through Research Scholarships	0	6	8	11	11	11	48
Statistics Canada	0	1	1	0	0	0	1
Monitoring Purchases of Canadian Real Estate	0	1	1	0	0	0	1
Transport Canada	0	162	214	238	117	100	832
Bringing Innovation to Regulations	0	10	18	18	0	0	46
Canada's Marine Safety Response	0	1	1	1	0	0	3
Delivering Better Service for Air Travellers	0	5	3	3	0	0	11
Encouraging Canadians to Use Zero Emission Vehicles	0	71	106	123	0	0	300
Protecting Canada's Critical Infrastructure from Cyber Threats	0	2	3	3	0	0	7
Safe and Secure Road and Rail Transportation	0	73	73	61	57	0	264
Strong Arctic and Northern Communities	0	0	10	30	60	100	200
Treasury Board of Canada Secretariat	0	36	29	31	19	19	134
Advancing Gender Equality	0	0.3	0.3	0.3	0.3	0.3	1.5
Better Digital Services for Canadians	0	0	12	12	0	0	24
Bringing Innovation to Regulations	0	0	3	3	3	3	13
Ensuring Proper Payments for Public Servants	0	25	0	0	0	0	25
Federal Public Service Dental Plan Amendments	0	11	14	15	15	16	71

Table A2.11

Budget 2019 Measures by Department (estimates basis)
 millions of dollars (cash basis)

	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	2023- 2024	Total (Cash)
Veterans Affairs Canada	0	76	48	45	44	43	256
Supporting Veterans' Families	0	30	30	30	30	30	150
Commemorating Canada's Veterans	0	1	1	1	0	0	3
Juno Beach Centre	0	1	1	1	1	1	3
Recognizing Métis Veterans	0	30	0	0	0	0	30
Supporting Research on Military and Veteran Health	0	1	7	7	7	7	30
Supporting Veterans as They Transition to Post-Service Life	0	14	9	6	6	5	41
Western Economic Diversification Canada	0	54	62	54	21	21	212
A Just Transition for Coal Power Workers and Communities	0	0	21	21	21	21	84
Launching a Federal Strategy on Jobs and Tourism	0	4	7	0	0	0	11
Protecting Water and Soil in the Prairies	0	1	0	0	0	0	1
Increased Funding for the Regional Development Agencies	0	16	0	0	0	0	16
Investing in a Diverse and Growing Western Economy	0	33	33	33	0	0	100
Women and Gender Equality	0	10	10	20	40	80	160
Advancing Gender Equality	0	10	10	20	40	80	160
Total – Voted Budgetary Measures by Department	87	6,030	7,448	6,259	4,682	4,682	29,188
Departmental Allocation To Be Determined	0	36	294	298	240	240	1,107
Canada's New International Education Strategy	0	22	45	66	8	8	149
Cleaning-up Federal Contaminated Sites	0	0	232	232	232	232	927
Expanding the Work of the LGBTQ2+ Secretariat	0	10	10	0	0	0	20
Launching a Federal Strategy on Jobs and Tourism	0	4	8	0	0	0	11
Other Budget 2019 measures (Estimates Basis)	224	3,937	1,405	2,424	1,734	1,393	11,116
Expanding the Rental Construction Financing Initiative	0	500	750	1,750	1,750	1,500	6,250
New Infrastructure Funding for Local Communities Through a Municipal Top-Up	0	2,200	0	0	0	0	2,200
Improving the Economic Security of Low-Income Seniors	0	0	345	466	471	476	1,758
Introducing the First-Time Home Buyer Incentive	0	250	500	500	0	0	1,250
Reducing Energy Costs Through Greater Energy Efficiency	0	1,010	0	0	0	0	1,010
Other	224	-23	-190	-292	-487	-583	-1,352
Total - All Budget 2019 Measures	311	10,003	9,147	8,980	6,655	6,315	41,411

4.4 Reconciliation of Budget 2019 Expenses with 2018–19 Main Estimates and 2019–20 Planned Estimates

Under this reconciliation, the accrual expense forecast is broken out into nine building blocks. These begin with Main Estimates authorities for 2018–19 or Planned Estimates authorities for 2019–20, and also include Budget Implementation Vote (BIV) allocations-to-date in 2018–19, Budget 2019 measures, additional Estimates authorities for which Parliamentary approval may be sought through Supplementary Estimates, amounts forecasted to remain unspent or carried forward from total authorities, further spending financed by departmental revenues, spending-like programs delivered through the tax system, and remaining accrual and consolidation adjustments required to put the forecast on the same accounting basis as the *Public Accounts of Canada*, Volume I. These building blocks are consistent with concepts and definitions used in the *Public Accounts of Canada*, Volume II.

Table A2.12

Summary Reconciliation of Budget 2019 Expenses with 2018–19 Main Estimates and 2019–20 Planned Estimates

billions of dollars

	2018–19	2019–20
(1) Main estimates/ Planned estimates	276.0	292.5
(2) Budget Implementation Vote allocations		
Allocations to Departments	4.8	
Drawdowns of Vote	(4.8)	0.0
(3) Measures (Estimates basis)	0.1	6.0
(4) Other anticipated authorities	18.2	12.2
(5) Unspent/carried forward	(14.5)	(11.3)
(6) Net expenditures	279.8	299.6
(7) Netted revenues	11.5	11.6
(8) Tax credits & repayments	28.0	31.3
(9) Accrual & consolidation adjustments	27.9	13.2
(10) Budget expense forecast	347.1	355.6

Table A2.13

Reconciliation of Budget 2019 Expenses with the 2018–19 Main Estimates
billions of dollars

	(1)	(2)	(3)	(4)	(5)	(6)
	Main Estimates	BIV allocation to date	Budget 2019 measures	Other anticipated authorities	Unspent / carried forward	Net expenditures
Direct program expenses of large departments						
National Defence	20.4	0.0	0.0	1.7	(0.5)	21.6
Indigenous Services Canada	9.3	0.8	0.0	1.9	(0.3)	11.8
Employment and Social Development	7.2	0.1	0.0	0.6	(0.1)	7.8
Treasury Board Secretariat	13.6	(4.3)	0.0	1.1	(4.0)	6.5
Global Affairs Canada	6.5	0.2	0.0	0.8	(0.4)	7.1
Crown-Indigenous Relations and Northern Affairs Canada	3.1	0.1	0.0	2.1	(0.6)	4.7
Infrastructure of Canada	4.0	0.0	0.0	0.5	(0.5)	4.1
Canada Revenue Agency	4.2	0.1	0.0	0.2	(0.2)	4.3
Veterans Affairs Canada	4.4	0.0	0.0	0.7	(0.2)	5.0
Royal Canadian Mounted Police	3.5	0.1	0.0	0.5	(0.1)	4.0
Public Services and Procurement Canada	3.2	0.6	0.0	0.7	(0.7)	3.9
Fisheries and Oceans Canada	2.4	0.1	0.0	1.2	(0.4)	3.3
Industry Canada	2.9	0.1	0.0	0.3	(0.8)	2.5
Immigration, Refugees and Citizenship Canada	2.4	0.1	0.0	1.6	(1.6)	2.5
Correctional Service of Canada	2.4	0.1	0.0	0.1	(0.1)	2.5
Agriculture and Agri-Food Canada	2.5	0.0	0.0	(0.3)	(0.2)	2.1
Shared Services Canada	1.5	0.2	0.0	0.3	(0.1)	2.0
Canada Border Services Agency	1.8	0.1	0.0	0.6	(0.3)	2.2
Environment and Climate Change Canada	1.5	0.1	0.0	0.1	(0.3)	1.4
Transport Canada	1.5	0.0	0.0	0.1	(0.4)	1.4
Parks Canada	1.5	0.0	0.0	0.5	(0.5)	1.5
Natural Resources	1.5	0.0	0.0	0.0	(0.1)	1.3
Canadian Heritage	1.3	0.1	0.0	0.1	0.0	1.4
Health Canada	1.3	0.2	0.0	0.1	(0.1)	1.5
Public Safety Canada	1.2	0.0	0.1	0.0	(0.2)	1.1
Department of Finance	0.7	0.0	0.0	0.4	(0.1)	1.0
Subtotal	106.0	(1.2)	0.1	16.0	(12.5)	108.3
Consolidated Crown corporations	5.0	0.4	0.0	1.1	(0.6)	5.8
Other direct program expenses	15.1	0.9	0.0	2.0	(1.4)	16.5
Total direct program expenses	126.0	0.0	0.1	19.0	(14.5)	130.6
Major transfers	127.1	0.0	0.0	(0.5)	0.0	126.7
Public debt charges	22.8	0.0	0.0	(0.3)	0.0	22.6
Total expenses	276.0	0.0	0.1	18.2	(14.5)	279.8

Table A2.13
Reconciliation of Budget 2019 Expenses with the 2018–19 Main Estimates
billions of dollars

	(6)	(7)	(8)	(9)	(10)
	Net expenditures	Netted revenues	Tax credits & repayments	Accrual & consolidation adjustments	Budget expense forecast
Direct program expenses of large departments					
National Defence	21.6	0.4	0.0	7.4	29.3
Indigenous Services Canada	11.8	0.1	0.0	(0.1)	11.8
Employment and Social Development	7.8	2.0	0.0	0.2	10.0
Treasury Board Secretariat	6.5	0.7	0.0	(0.2)	7.0
Global Affairs Canada	7.1	0.0	0.0	(0.4)	6.8
Crown-Indigenous Relations and Northern Affairs Canada	4.7	0.0	0.0	2.5	7.1
Infrastructure of Canada	4.1	0.0	0.0	(0.9)	3.2
Canada Revenue Agency	4.3	0.4	4.0	3.9	12.6
Veterans Affairs Canada	5.0	0.0	0.0	(3.9)	1.1
Royal Canadian Mounted Police	4.0	1.7	0.0	1.1	6.8
Public Services and Procurement Canada	3.9	3.6	0.0	(4.1)	3.4
Fisheries and Oceans Canada	3.3	0.0	0.0	0.2	3.6
Industry Canada	2.5	0.3	0.0	(0.2)	2.5
Immigration, Refugees and Citizenship Canada	2.5	0.4	0.0	(0.1)	2.9
Correctional Service of Canada	2.5	0.1	0.0	(0.3)	2.4
Agriculture and Agri-Food Canada	2.1	0.0	0.0	0.0	2.1
Shared Services Canada	2.0	0.7	0.0	(0.8)	1.9
Canada Border Services Agency	2.2	0.0	0.0	(0.1)	2.1
Environment and Climate Change Canada	1.4	0.1	0.0	(0.1)	1.4
Transport Canada	1.4	0.1	0.0	(0.1)	1.3
Parks Canada	1.5	0.0	0.0	(0.5)	1.0
Natural Resources	1.3	0.0	0.0	1.0	2.3
Canadian Heritage	1.4	0.0	0.0	0.0	1.4
Health Canada	1.5	0.1	0.0	0.0	1.6
Public Safety Canada	1.1	0.0	0.0	0.1	1.2
Department of Finance	1.0	0.0	0.0	0.0	1.0
Subtotal	108.3	10.8	4.0	4.6	127.7
Consolidated Crown corporations	5.8	0.0	0.0	0.8	6.6
Other direct program expenses	16.5	0.7	0.0	0.0	17.2
Total direct program expenses	130.6	11.5	4.0	5.5	151.5
Major transfers	126.7	0.0	23.9	21.4	172.0
Public debt charges	22.6	0.0	0.0	1.0	23.6
Total expenses	279.8	11.5	28.0	27.9	347.1

Note: Totals may not add due to rounding.

Table A2.14

Reconciliation of Budget 2019 Expenses with the 2019–20 Planned Estimates
billions of dollars

	(1)	(3)	(4)	(5)	(6)
	Planned Estimates	Budget 2019 measures	Other anticipated authorities	Unspent / carried forward	Net expenditures
Direct program expenses of large departments					
National Defence	21.2	—	0.4	1.7	(0.8) 22.6
Indigenous Services Canada	11.5	—	0.7	0.3	(0.4) 12.1
Employment and Social Development	8.2	—	0.3	0.0	(0.1) 8.4
Treasury Board Secretariat	7.3	—	0.0	(2.3)	(1.8) 3.2
Global Affairs Canada	6.5	—	0.3	0.9	(0.3) 7.3
Crown-Indigenous Relations and Northern Affairs Canada	6.0	—	0.9	1.3	(0.4) 7.9
Infrastructure of Canada	5.8	—	0.0	0.7	(0.6) 5.9
Canada Revenue Agency	4.4	—	0.1	0.2	(0.2) 4.4
Veterans Affairs Canada	4.3	—	0.1	0.4	(0.2) 4.7
Royal Canadian Mounted Police	3.4	—	0.1	0.6	(0.1) 4.0
Public Services and Procurement Canada	3.2	—	1.0	0.8	(0.7) 4.3
Fisheries and Oceans Canada	3.0	—	0.0	1.1	(0.2) 3.9
Industry Canada	2.6	—	0.1	0.4	(0.7) 2.5
Immigration, Refugees and Citizenship Canada	2.6	—	0.3	1.5	(1.3) 3.1
Correctional Service of Canada	2.5	—	0.1	0.1	(0.1) 2.6
Agriculture and Agri-Food Canada	2.5	—	0.0	(0.1)	(0.1) 2.3
Shared Services Canada	1.9	—	0.0	0.3	(0.1) 2.0
Canada Border Services Agency	1.9	—	0.2	0.4	(0.2) 2.3
Environment and Climate Change Canada	1.8	—	0.0	0.1	(0.1) 1.8
Transport Canada	1.7	—	0.2	0.1	(0.3) 1.7
Parks Canada	1.7	—	0.0	0.5	(0.5) 1.7
Natural Resources	1.5	—	0.0	1.2	(0.1) 2.6
Canadian Heritage	1.4	—	0.1	0.1	0.0 1.6
Health Canada	1.3	—	0.1	0.2	0.0 1.5
Public Safety Canada	0.7	—	0.2	0.0	(0.1) 0.7
Department of Finance	0.7	—	0.0	0.1	(0.1) 0.7
Subtotal	109.7	—	5.3	10.4	(9.8) 115.6
Consolidated Crown corporations	6.1	—	0.3	0.8	(0.4) 6.7
Other direct program expenses	16.8	—	0.4	1.0	(1.0) 17.2
Total direct program expenses	132.5	—	6.0	12.2	(11.3) 139.6
Major transfers	135.3	—	0.0	0.0	0.0 135.3
Public debt charges	24.7	—	0.0	0.0	0.0 24.7
Total expenses	292.5	—	6.0	12.2	(11.3) 299.6

Table A2.14
Reconciliation of Budget 2019 Expenses with the 2019–20 Planned Estimates
billions of dollars

	(6)	(7)	(8)	(9)	(10)
	Net expenditures	Netted revenues	Tax credits & repayments	Accrual & consolidation adjustments	Budget expense forecast
Direct program expenses of large departments					
National Defence	22.6	0.4	0.0	5.8	28.8
Indigenous Services Canada	12.1	0.2	0.0	(0.2)	12.0
Employment and Social Development	8.4	2.1	0.0	(0.1)	10.4
Treasury Board Secretariat	3.2	0.8	0.0	(0.2)	3.8
Global Affairs Canada	7.3	0.1	0.0	(0.8)	6.6
Crown-Indigenous Relations and Northern Affairs Canada	7.9	0.0	0.0	(5.1)	2.7
Infrastructure of Canada	5.9	0.0	0.0	(1.1)	4.8
Canada Revenue Agency	4.4	0.4	7.0	4.1	15.9
Veterans Affairs Canada	4.7	0.0	0.0	(3.5)	1.2
Royal Canadian Mounted Police	4.0	1.7	0.0	0.7	6.4
Public Services and Procurement Canada	4.3	3.6	0.0	(4.5)	3.4
Fisheries and Oceans Canada	3.9	0.0	0.0	(1.5)	2.4
Industry Canada	2.5	0.3	0.0	(0.2)	2.6
Immigration, Refugees and Citizenship Canada	3.1	0.3	0.0	(0.1)	3.3
Correctional Service of Canada	2.6	0.1	0.0	(0.3)	2.5
Agriculture and Agri-Food Canada	2.3	0.0	0.0	(0.4)	1.9
Shared Services Canada	2.0	0.6	0.0	(0.8)	1.9
Canada Border Services Agency	2.3	0.0	0.0	(0.1)	2.2
Environment and Climate Change Canada	1.8	0.1	0.0	(0.1)	1.8
Transport Canada	1.7	0.1	0.0	0.0	1.8
Parks Canada	1.7	0.0	0.0	(0.6)	1.1
Natural Resources	2.6	0.0	0.0	(1.0)	1.6
Canadian Heritage	1.6	0.0	0.0	0.0	1.6
Health Canada	1.5	0.1	0.0	(0.1)	1.5
Public Safety Canada	0.7	0.0	0.0	0.3	1.1
Department of Finance	0.7	0.0	0.0	0.0	0.7
Subtotal	115.6	10.9	7.0	(9.6)	123.9
Consolidated Crown corporations	6.7	0.0	0.0	0.1	6.8
Other direct program expenses	17.2	0.7	0.0	3.5	21.4
Total direct program expenses	139.6	11.6	7.0	(6.0)	152.1
Major transfers	135.3	0.0	24.3	17.7	177.3
Public debt charges	24.7	0.0	0.0	1.5	26.2
Total expenses	299.6	11.6	31.3	13.2	355.6

Note: Totals may not add due to rounding.

1. Main Estimates (2018–19) and Planned Estimates (2019–20)

The Estimates reflect authorities approved in previous budgets that have been confirmed by Treasury Board for all organizations that receive a voted appropriation from Parliament. The Estimates also include, for information, forecasts of spending under most statutory authorities previously provided by Parliament.

The Estimates are presented on a modified cash basis of accounting. Figures are net of certain revenues collected by departments, which departments can respond to reduce the level of appropriations sought from Parliament.

The Estimates are designed primarily to support Parliament's scrutiny of the portion of government spending that requires annual approval through the appropriation acts. As such, they exclude several programs where authorities and reporting to Parliament are established under separate regimes, most notably the Employment Insurance Operating Account and programs delivered through the tax system.

Estimates include both budgetary authorities (for expenditures which impact the income statement) and non-budgetary authorities (for balance sheet transactions). As the objective in this reconciliation table is to identify transactions and adjustments that affect accrual expenses, the Main Estimates and Planned Estimates columns include only budgetary authorities.

Values in this column for 2019–20 are preliminary, reflecting Treasury Board approvals through the end of February 2019.

2. Budget Implementation Vote Allocations-to-Date (2018–19 only)

The Budget Implementation Vote (BIV) was introduced in the Main Estimates 2018–19. The BIV was included in the Main Estimates of the Treasury Board of Canada Secretariat (TBS), and is being allocated to departments throughout the fiscal year as Budget 2018 measures included in the vote are confirmed by Treasury Board.

This column shows 2018–19 amounts that have been allocated to departments by Treasury Board as of the latest available monthly update published by TBS which reflects Treasury Board approvals through the end of February 2019.

BIV amounts which are remaining to be allocated later in 2018–19 are included within the "Other anticipated authorities" column.

3. Budget 2019 measures

This column is based on the Budget 2019 measures by department (cash basis) in Table A2.11, adjusted to follow the same accounting and presentational conventions as the Estimates (for example, as discussed above, amounts related to the Employment Insurance Operating Account do not flow through the Estimates).

Measures affecting departments other than the 26 identified in the table are grouped in the “Other direct program expenses” row. Measures which are solely statutory (and budgetary) are included in the “Other anticipated authorities” column.

4. Other Anticipated Authorities

This category captures a range of forecasted authorities for measures and mechanisms that have been approved in principle off cycle or in previous budgets, or that have already been authorized under existing legislation, and that are expected to appear in a Supplementary Estimates or the Public Accounts.

For example, a revolving fund or a department with multi-year appropriations may have authority to carry forward unspent authorities from 2018–19 into 2019–20, but that amount cannot be confirmed until the audited financial results for 2018–19 become available.

Similarly, the Treasury Board manages several central votes for carry-forwards, certain eligible personnel expenditures and other contingencies that are initially presented under Treasury Board Secretariat and subsequently allocated to departments throughout the year as departments meet eligibility requirements. This includes amounts remaining to be allocated from the Budget Implementation Vote for Budget 2018 measures.

Another common reason authorities are not sought until a Supplementary Estimates is that a previous budget or off-cycle measure has not yet received the supporting policy or program approval.

There are also certain statutory authorities, often small, which may not be included for information in the Estimates but which are reported in the Public Accounts.

Note that the sum of the values in the first four columns represent a forecast of total budgetary authorities available by department, consistent with the concepts and definitions applied in the *Public Accounts of Canada Volume II*, Section 1, Table 5.

5. Unspent/Carried Forward

This column is the forecasted difference between the forecast of potential spending authorities (the sum of authorities from columns one through four) and anticipated spending over that period (net expenditures in column six).

Specifically, the Estimates show the maximum amount of appropriated funding that can be spent at a point in time, while the budget projects the amount of spending that will likely be spent over the entire course of the fiscal year.

The budget forecast recognizes that some amount of authorities included in the Estimates will remain unspent at the end of the fiscal year. These unspent amounts are either carried forward automatically into subsequent years or they "lapse". Amounts that technically lapse in one year are often spent in a subsequent year as they are reprofiled and included in a future Estimates.

Lapses are influenced by many factors, such as contract and project delays, uncommitted authorities in Treasury Board managed central votes, as well as departmental funds management practices to ensure that spending does not exceed the authorities approved by Parliament.

In terms of the *Public Accounts of Canada*, Volume II, Section 1, Table 5, this column aligns with the sum of "Available for use in subsequent years" and "Lapsed."

6. Net Expenditures

Expenditures are largely funded through voted appropriations and statutory authorities, and to a limited extent through departmental revenues. In the Estimates, authorities and expenditures are presented on a "net" basis, i.e. excluding expenditures expected to be funded by departmental revenues, in order to reflect the expected impact on the Consolidated Revenue Fund.

Figures in this column are presented on the same modified cash basis of accounting as the Estimates, and represent a forecast of the corresponding amount in the *Public Accounts of Canada*, Volume II, Section 1, Table 5.

7. Netted Revenues

Certain expenditures are funded through departmental revenues. Accrual expenses in the budget and the Public Accounts are on a "gross" basis, so revenues that are netted against expenditures in the Estimates are added back in order to arrive at forecasted accrual expenses. Summing the figures in the Net expenditures column with the Netted revenues column would yield "Total gross expenditures" on a modified cash basis of accounting. Net expenditures, Netted revenues and Total gross expenditures are reported by department in the *Public Accounts of Canada*, Volume II, Section 1, Table 3.

8. Tax Credits & Repayments

This column captures expenditures forecasted to be delivered through the tax system, but not shown in the Estimates. Costs related to the Canada Child Benefit are the largest component in this column (shown in the “Major transfers” row). Tax credits and repayments that are considered direct program expenses are shown in the “Canada Revenue Agency” row, and include, for example, incentives for research and development, the Canada Workers Benefit, and the return of direct fuel charge proceeds through Climate Action Incentive payments associated with the introduction of carbon pollution pricing.

Parliament does not authorize annual spending for such tax expenditures and refundable tax credits, which are instead legislated through the *Income Tax Act*. These expenditures are reported in the *Public Accounts of Canada*, Volume II, Section 1, Table 3a. In addition, the Department of Finance Canada’s annual *Report on Federal Tax Expenditures* includes both historical and forecasted values by program.

9. Accrual & Consolidation Adjustments

This column captures other differences in accounting basis and scope between the Estimates and the budget/*Public Accounts of Canada*.

The budget is presented on an accrual basis whereas the Estimates are presented on a modified cash basis. As a result, certain items such as acquisitions of tangible capital assets will be reported differently between the two publications. Under accrual accounting, the cost to acquire an asset is amortized over the expected life of the asset, whereas under modified cash accounting, the cost is recognized as disbursements are made. For example, if a building is acquired that has a useful life of 30 years, then accrual accounting will see the cost amortized over the 30-year life of the asset, while cash accounting will portray the cost only in the first few years when the payments are made.

Other examples of accrual adjustments include bad debt expenses, operating expenses and public debt charges related to pensions and benefits for which cash disbursements are expected to be made in subsequent years but for which expenses are accrued in the current year.

All costs related to consolidated specified purpose accounts, and certain costs related to consolidated Crown corporations, are also included here, including some amounts announced in Budget 2019. The most important is Employment Insurance (EI) benefits. Most EI costs are paid directly out of the Employment Insurance Operating Account, rather than a departmental appropriation, and are therefore not specifically included in the Estimates, though they are included in the budget. Similarly, expenses of consolidated Crown corporations that are funded from their own revenues are also captured here.

A final consolidation adjustment included is the reversal of expenses that are internal to government, such as when one department pays another to provide it with a service.

This column represents a forecast consistent with a group of adjustments reported in the *Public Accounts of Canada*, Volume II, Section 1, Table 3a.

10. Budget Expense Forecast

This column represents final external expenses on an accrual basis, inclusive of all budget and off-cycle measures outlined in the Budget.

4.5 Sensitivity of Fiscal Projections to Economic Shocks

Changes in economic assumptions affect the projections for revenues and expenses. The following tables illustrate the sensitivity of the budgetary balance to a number of economic shocks:

- A one-year, 1-percentage-point decrease in real GDP growth driven equally by lower productivity and employment growth.
- A decrease in nominal GDP growth resulting solely from a one-year, 1-percentage-point decrease in the rate of GDP inflation (assuming that the Consumer Price Index (CPI) moves in line with GDP inflation).
- A sustained 100-basis-point increase in all interest rates.

These sensitivities are generalized rules of thumb that assume any decrease in economic activity is proportional across income and expenditure components, and are meant to provide a broad illustration of the impact of economic shocks on the outlook for the budgetary balance. Actual economic shocks may have different fiscal impacts. For example, they may be concentrated in specific sectors of the economy or cause different responses in key economic variables (e.g. GDP inflation and CPI inflation may have different responses to a given shock).

Table A2.15

Estimated Impact of a One-Year, 1-Percentage-Point Decrease in Real GDP Growth on Federal Revenues, Expenses and Budgetary Balance
billions of dollars

	Year 1	Year 2	Year 5
Federal revenues			
Tax revenues			
Personal income tax	-3.0	-3.1	-3.6
Corporate income tax	-0.7	-0.7	-0.7
Goods and Services Tax	-0.4	-0.4	-0.5
Other	-0.2	-0.2	-0.2
Total tax revenues	-4.2	-4.3	-5.0
Employment Insurance premiums	0.1	0.5	0.6
Other revenues	-0.1	-0.1	-0.1
Total budgetary revenues	-4.2	-3.9	-4.5
Federal expenses			
Major transfers to persons			
Elderly benefits	0.0	0.0	0.0
Employment Insurance benefits	0.9	0.9	0.3
Canada Child Benefit	0.0	0.1	0.2
Total	0.8	1.0	0.5
Other program expenses	-0.2	-0.2	-0.5
Public debt charges	0.1	0.2	0.6
Total expenses	0.7	0.9	0.6
Budgetary balance	-4.9	-4.9	-5.1

Note: Totals may not add due to rounding.

A 1-percentage-point decrease in real GDP growth proportional across income and expenditure components reduces the budgetary balance by \$4.9 billion in the first year, \$4.9 billion in the second year and \$5.1 billion in the fifth year (Table A2.15).

- Tax revenues from all sources fall by a total of \$4.2 billion in the first year. Personal income tax revenues decrease as employment and the underlying tax base fall. Corporate income tax revenues fall as output and profits decrease. GST revenues decrease as a result of lower consumer spending associated with the fall in employment and personal income.
- EI premium revenues increase as a result of an increase in the EI premium rate, which, under the seven-year break-even mechanism adjusts to offset the increase in benefits due to the higher number of unemployed, such that the EI Operating Account balances over time.

- Expenses rise, mainly reflecting higher EI benefits (due to an increase in the number of unemployed) and higher public debt charges (reflecting a higher stock of debt due to the lower budgetary balance). This rise is partially offset by lower other program expenses (as certain programs are linked to growth in nominal GDP).

Table A2.16

**Estimated Impact of a One-Year, 1-Percentage-Point Decrease in GDP
Inflation on Federal Revenues, Expenses and Budgetary Balance**
billions of dollars

	Year 1	Year 2	Year 5
Federal revenues			
Tax revenues			
Personal income tax	-2.8	-2.0	-2.0
Corporate income tax	-0.5	-0.5	-0.6
Goods and Services Tax	-0.4	-0.3	-0.2
Other	-0.2	-0.2	-0.2
Total tax revenues	-3.8	-3.1	-3.0
Employment Insurance premiums	-0.1	-0.1	-0.2
Other revenues	-0.1	-0.1	-0.1
Total budgetary revenues	-4.0	-3.3	-3.3
Federal expenses			
Major transfers to persons			
Elderly benefits	-0.4	-0.6	-0.7
Employment Insurance benefits	-0.1	-0.1	-0.1
Canada Child Benefit	0.0	-0.1	-0.2
Total	-0.5	-0.8	-1.2
Other program expenses	-0.5	-0.6	-1.2
Public debt charges	-0.6	0.1	0.2
Total expenses	-1.5	-1.3	-2.2
Budgetary balance	-2.5	-2.0	-1.1

Note: Totals may not add due to rounding.

A 1-percentage-point decrease in nominal GDP growth proportional across income and expenditure components resulting solely from lower GDP inflation (assuming that the CPI moves in line with GDP inflation) lowers the budgetary balance by \$2.5 billion in the first year, \$2.0 billion in the second year and \$1.1 billion in the fifth year (Table A2.16).

- Lower prices result in lower nominal income and, as a result, personal income tax revenues decrease. As the parameters of the personal income tax system are indexed to inflation, the fiscal impact is smaller than under the real shock. For the other sources of tax revenue, the negative impacts are similar under the real and nominal GDP shocks.
- EI premium revenues decrease in response to lower earnings.
- Other revenues decline slightly as lower prices lead to lower revenues from the sales of goods and services.
- Partly offsetting lower revenues are the declines in the cost of statutory programs that are indexed to inflation, such as elderly benefit payments, which puts downward pressure on federal program expenses. Payments under these programs are smaller if inflation is lower. In addition, other program expenses are also lower as certain programs are linked directly to growth in wages and nominal GDP.
- Public debt charges decline in the first year due to lower costs associated with Real Return Bonds, then rise due to the higher stock of debt.

Table A2.17

Estimated Impact of a Sustained 100-Basis-Point Increase in All Interest Rates on Federal Revenues, Expenses and Budgetary Balance
billions of dollars

	Year 1	Year 2	Year 5
Federal revenues	1.3	2.0	3.0
Federal expenses	1.9	3.4	5.7
Budgetary balance	-0.6	-1.4	-2.7

Note: Totals may not add due to rounding.

An increase in interest rates decreases the budgetary balance by \$0.6 billion in the first year, \$1.4 billion in the second year and \$2.7 billion in the fifth year (Table A2.17). The decline stems entirely from increased expenses associated with public debt charges. The impact on debt charges rises through time as longer-term debt matures and is refinanced at higher rates. Moderating the overall impact is an increase in revenues associated with the increase in the rate of return on the Government's interest-bearing assets, which are recorded as part of other revenues. The impacts of changes in interest rates on public sector pension and benefit expenses are excluded from the sensitivity analysis.

ANNEX 3

Legislative Measures

This annex includes a number of measures (other than tax-related measures) that would be implemented through legislation.

Legislative Measures

Subject of the Measure	Proposed Legislative Action
Shared Equity Mortgage	The Government proposes to introduce legislation that would enable CMHC to offer the First-Time Home Buyer Incentive and administer a fund for third-party shared equity mortgage providers.
National Housing Strategy	The Government proposes to introduce new legislation that would require the federal government to maintain a National Housing Strategy that prioritizes the housing needs of the most vulnerable, and require regular reporting to Parliament on progress toward the Strategy's goals and outcomes.
Affordable and Accessible Education	The Government proposes changes to Canada Student Loans and Canada Apprentice Loans that would lower the floating interest rate and the fixed interest rate. The Government proposes to introduce amendments the <i>Canada Student Financial Assistance Act</i> so that student loans will not accumulate any interest during the six-month non-repayment period (the "grace period") after a student loan borrower leaves school.
Economic Security of Low-Income Seniors	The Government proposes to introduce legislation that would enhance the Guaranteed Income Supplement earnings exemption.
Enrollment in Canada Pension Plan	The Government proposes to introduce legislative amendments that would proactively enroll Canada Pension Plan contributors who are age 70 or older in 2020 but have not yet applied to receive their retirement benefit.
Protecting Canadians' Pensions	The Government proposes to introduce legislative amendments to the <i>Companies' Creditors Arrangement Act</i> , the <i>Bankruptcy and Insolvency Act</i> , the <i>Canada Business Corporations Act</i> and the <i>Pension Benefits Standards Act, 1985</i> that would better protect workplace pensions in the event of corporate insolvency.
Gas Tax Fund	The Government proposes a one-time transfer of \$2.2 billion through the federal Gas Tax Fund to address short-term priorities in municipalities and First Nation communities.

Subject of the Measure	Proposed Legislative Action
Energy Efficiency	The Government proposes to invest \$1.01 billion in 2018–19 to increase energy efficiency in residential, commercial and multi-unit buildings and to support infrastructure skills training for community.
Price on Pollution	The Government proposes to introduce legislation that would allow direct proceeds from the regulatory charge on fossil fuels to be directed towards sectors that may be particularly affected by the carbon pollution price.
Bringing Innovation to Regulations	The Government proposes to introduce legislation to begin its work on an annual modernization bill consisting of legislative amendments to various statutes to help eliminate outdated federal regulations and better keep existing regulations up to date.
New Departments to Support New Relationship with Indigenous People	The Government proposes to introduce legislation that would effect the formal creation of two new departments: Crown-Indigenous Relations and Northern Affairs Canada, and Indigenous Services Canada.
Supporting Veterans as they Transition to Post-Service Life	The Government proposes to amend legislation that would expand eligibility for the Education and Training Benefit, so that members of the Supplementary Reserve can access the Benefit.
Protecting Canada's Critical Infrastructure	The Government intends to propose new legislation and make necessary amendments to existing federal legislation in order to introduce a new critical cyber systems framework.
Enhancing Accountability and Oversight of the Canada Border Services Agency	The Government proposes to introduce amendments to the <i>Canada Border Services Agency Act</i> , the <i>Royal Canadian Mounted Police Act</i> and other Acts, as required, that would expand the Civilian Review and Complaints Commission to act as an independent review body for the Royal Canadian Mounted Police and the Canada Border Services Agency.
Strengthening the Royal Canadian Mounted Police	The Government proposes to introduce legislative amendments to the <i>Royal Canadian Mounted Police Act</i> and other Acts, as required, that would establish the Management Board for the RCMP.
Enhancing the Integrity of Canada's Borders and Asylum System	The Government proposes to introduce legislative amendments to the <i>Immigration and Refugee Protection Act</i> to better manage, discourage and prevent irregular migration. The Government proposes to introduce amendments to the <i>Federal Courts Act</i> to create three new judicial positions to help ensure efficient and timely processing of asylum claimants seeking judicial review.
Protecting People from Unscrupulous Immigration Consultants	The Government proposes to introduce legislation and propose amendments to the <i>Immigration and Refugee Protection Act</i> and the <i>Citizenship Act</i> in order to implement measures to help protect newcomers and applicants wishing to obtain the services of legitimate service providers.
Improving Emergency Medical Response in Western Canada	The Government proposes to provide a one-time investment of \$65 million in 2018–19 for the Shock Trauma Air Rescue Service (STARS) to replace its aging fleet and acquire new emergency ambulance helicopters.

Subject of the Measure	Proposed Legislative Action
Beneficial Ownership Transparency	The Government proposes amendments to the <i>Canada Business Corporations Act</i> to make the beneficial ownership information maintained by federally incorporated corporations more readily available to tax authorities and law enforcement.
Strengthening Anti-Money Laundering and Anti-Terrorist Financing Regime	The Government proposes legislative amendments to the <i>Criminal Code</i> and <i>Proceeds of Crime (Money Laundering) and Terrorist Financing Act</i> as well as complementary legislative measures to strengthen Canada's legal framework and support operational capacity of FINTRAC.
CATSA Transition	The Government proposes to introduce legislation that would enable CATSA to transition to an independent, not-for-profit entity and to establish this entity.
Parks Canada	The Government proposes amendments to the <i>Parks Canada Agency Act</i> to create a standard, one-year appropriation authority for the Agency to ensure that Canadians continue to enjoy Canada's natural treasures in our national parks, heritage sites, and marine conservation areas and to better manage heritage, tourism, waterway, and highway assets.
New Retail Payments Oversight	The Government proposes to introduce legislation to implement a new retail payments oversight framework, so that retail payment services providers can continue to offer innovation in services, while remaining reliable and safe.
Modernizing the Governance Framework of Payments Canada	The Government proposes to introduce technical amendments to the <i>Canadian Payments Act</i> to modernize the governance framework of Payments Canada.
Updating Federal Financial Sector Statutes	The Government proposes to introduce amendments to the federal financial institutions statutes (the Bank Act, Insurance Companies Act and Trust and Loan Companies Act) and related legislation such as the Bank of Canada Act, Canada Deposit Insurance Corporation Act and Payment Clearing and Settlement Act that would ensure that they meet the changing needs of Canadian consumers and businesses. Amendments will be proposed to: ensure the legislation remains clear and current; modernize the corporate governance framework for federally regulated financial institutions; and add further clarity on how investors, creditors and other participants may be compensated as a result of actions taken by financial sector authorities to sell, wind down or restore to viability a failing bank or financial market infrastructure.
Unclaimed Assets Framework	The Government proposes to introduce legislative amendments to the <i>Bank Act</i> , the <i>Bank of Canada Act</i> , the <i>Trust and Loan Companies Act</i> and the <i>Pension Benefits Standards Act, 1985</i> to expand the scope of the framework to include foreign denominated bank accounts and unclaimed pension balances from terminated federally regulated pension plans.
Poverty Reduction	The Government reaffirms its commitment to move ahead with poverty reduction legislation.

Subject of the Measure	Proposed Legislative Action
Prompt Payments	The Government proposes to introduce legislation that would ensure that payments flow down the construction supply chain promptly and to provide for an effective adjudicative mechanism when they do not, thus facilitating the orderly and timely building of federal construction projects on federal property.
Public Sector Pension Plan Sustainability	The Government proposes to introduce legislation that would amend the <i>Public Service Superannuation Act</i> , the <i>Canadian Forces Superannuation Act</i> and the <i>Royal Canadian Mounted Police Superannuation Act</i> to increase the surplus limit for the pension plans covering: (i) the Public Service; (ii) the Canadian Armed Forces (Regular Force); and (iii) the Royal Canadian Mounted Police, from 10 per cent to 25 per cent of the plans' liabilities.
NAV Canada Indemnity	The Government proposes to introduce amendments to the <i>Aviation Industry Indemnity Act</i> that would indemnify NAV Canada for any liability arising from its support of Canadian Armed Forces operations.
Transportation Appeal Tribunal	The Government proposes to introduce amendments to the <i>Transportation Appeal Tribunal of Canada Act</i> that would ensure clarity around the Transportation Appeal Tribunal of Canada's jurisdiction in respect of reviews and appeals connected to administrative monetary penalties under the <i>Marine Liability Act</i> .
Pilotage Modernization	The Government proposes to introduce amendments to the <i>Pilotage Act</i> that would support the Oceans Protection Plan by strengthening the governance of Canada's pilotage authorities, strengthening enforcement provisions, streamlining fee-setting and increasing transparency.
First Nations Access to Land and Land Management	The Government proposes to introduce amendments to the <i>First Nations Land Management Act</i> and the <i>Addition of Lands to Reserves and Reserve Creation Act</i> that would streamline the process for Additions to Reserve.
National Parks	The Government proposes to introduce amendments to the <i>Canada National Parks Act</i> : <ul style="list-style-type: none"> • to alter the boundaries of ski areas in Banff National Park, and • to take steps to legally establish the Thaidene Néné National Park Reserve in the Northwest Territories.
Amendments to the Employment Equity Act	The Government proposes to introduce amendments to the <i>Employment Equity Act</i> and the <i>Employment Equity Regulations</i> that would introduce pay transparency measures for federally regulated employees in order to reduce wage gaps.

ANNEX 4

Modernizing Canada's Financial Sector

Canadians expect and deserve a stable financial system that safeguards their savings and investments and delivers the financial services they need at a fair price.

To that end, the Government proposes to modernize Canada's financial sector framework through measures that will support consumers, including new products and services, promote stability and innovation, and enhance the security and integrity of the financial system.

Reviewing the Merits of Open Banking

Open banking has the potential to offer Canadian consumers—including small businesses—a secure way to consent to sharing their financial transaction data with financial service providers, allowing them to benefit from a broader range of financial products and services at more competitive prices. This could better serve consumers and grow businesses and markets, benefitting Canada's economy as a whole.

In Budget 2018, the Government announced that it would undertake a review, and appointed an Advisory Committee on Open Banking last year. A public consultation paper was released in January 2019, and roundtable consultations are currently underway to learn more about how Canadians feel about open banking. The Committee will deliver a report to the Minister of Finance assessing the merits of open banking after the consultations are complete. Subject to its findings, the Government would assess best potential ways to move ahead with open banking, with the highest regard for consumer privacy, security and financial stability.

Supporting an Innovative and Well-Functioning Canadian Payments System

Retail payment services make it possible for Canadians to buy goods and services, pay their bills and transfer funds using cash, debit and credit cards, cheques, and mobile and electronic devices. A range of new innovative service providers and technologies are emerging that are changing how Canadians make payments.

In Budget 2019, the Government proposes to introduce legislation to implement a new retail payments oversight framework, so that retail payment services providers can continue to offer innovation in services, while remaining reliable and safe. The framework would require payment service providers to establish sound operational risk management practices and to protect users' funds against losses. The Bank of Canada would oversee the payment service providers' compliance with operational and financial requirements and maintain a public registry of regulated payment service providers.

Budget 2019 also proposes to introduce technical amendments to the *Canadian Payments Act* to modernize the governance framework of Payments Canada. These proposed amendments follow a legislative review of the *Canadian Payments Act* undertaken by the Government in 2018.

Supporting Sustainable Financing

Given the trajectory of climate change, the way Canadian companies and financial institutions address climate issues and capitalize on clean growth opportunities will ultimately shape long-term economic, environmental and social development. That is why the Minister of Environment and Climate Change and the Minister of Finance jointly launched Canada's Expert Panel on Sustainable Finance. Over the last year, the Panel has been consulting with financial market participants and other stakeholders with the aim of submitting a final report in spring 2019.

Many Canadian companies and federal Crown corporations are now taking steps to implement the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). The Government supports the TCFD's voluntary international disclosure standards and a phased approach to adopting them by major Canadian companies, as appropriate. By supporting these standards, the Government aims to raise firms' awareness of the importance of tracking, managing and disclosing material climate-related risks and opportunities in a consistent and comparable way. The Government will also encourage adoption by federal Crown corporations where appropriate and relevant to their business activities.

Introducing a Financial Consumer Agency of Canada Governance Council

The Government of Canada is committed to protecting financial consumers, and it delivered on this commitment in 2018 by providing new protections to consumers and granting new powers to the Financial Consumer Agency of Canada (FCAC).

This year, the Minister of Finance will appoint a governance council to support the Agency in becoming a world leader in financial consumer protection. The Council will guide FCAC in its expanded mandate and promote the confidence of Canadians in our financial consumer protection system.

Updating Federal Financial Sector Statutes

With the help of Parliament, the Government regularly reviews existing statutes governing federal financial institutions to ensure they have the legal authority to make appropriate adjustments to meet the changing needs of Canadian consumers and businesses.

The Government proposes to introduce amendments to the federal financial institutions statutes (the *Bank Act*, *Insurance Companies Act* and *Trust and Loan Companies Act*) and related legislation such as the *Bank of Canada Act*, *Canada Deposit Insurance Corporation Act* and *Payment Clearing and Settlement Act*.

In the latest review, stakeholders identified an opportunity to modernize the corporate governance framework for federally regulated financial institutions to keep in step with changes passed by Parliament to the *Canada Business Corporations Act* in May 2018. These legislative amendments will promote, among other things, a more democratic and transparent election process of board members. Some changes will also allow for easier participation in the election of boards. For example, members of federal credit unions would have more options for voting prior to and at annual general meetings, enhancing their participation in decision-making of federal credit unions. The legislative amendments will also afford the opportunity for institutions to reduce their administrative costs and regulatory burden by using technology in their communications with owners.

The new measures will also introduce new requirements for federally regulated financial institutions to disclose policies aimed at promoting greater diversity on boards and in senior management.

Technical amendments will also be proposed to ensure the legislation remains clear and current, and add further clarity on how investors, creditors and other participants may be compensated as a result of actions taken by financial sector authorities to sell, wind down or restore to viability a failing bank or financial market infrastructure.

Modernizing the Unclaimed Assets Framework

The Government of Canada is committed to protecting Canadians' unclaimed deposits, which result when accounts, deposits or other instruments held by financial institutions have been inactive for 10 years. In 2017 and 2018, the Government consulted the public on proposed ways to modernize and improve the unclaimed deposits program and better serve Canadians.

In Budget 2019, the Government proposes to introduce legislative amendments to the *Bank Act*, the *Bank of Canada Act*, the *Trust and Loan Companies Act* and the *Pension Benefits Standards Act, 1985* to expand the scope of the framework to include foreign denominated bank accounts and unclaimed pension balances from terminated federally regulated pension plans. These legislative changes will enable the Government to protect a greater number of people's hard-earned savings and help reunite more Canadians with their lost or forgotten money.

Annex 4 - Modernizing Canada's Financial Sector

millions of dollars

	2018						
	- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	2023- 2024	Total
Modernizing Canada's Financial Sector							
Supporting an Innovative and Well-Functioning Canadian Payments System	0	1	4	6	8	9	27
Less: Costs to be Recovered	0	0	0	-5	-8	-9	-21
Introducing a FCAC Governance Council	0	0	0	0	0	0	1
Annex 4 - Net Fiscal Impact	0	1	4	2	0	0	7

Debt Management Strategy

Introduction

The *Debt Management Strategy* sets out the Government of Canada's objectives, strategy and borrowing plans for its domestic debt program and the management of its official international reserves. Borrowing activities support the ongoing refinancing of government debt coming to maturity, the execution of the budget plan and the financial operations of the Government. The *Debt Management Strategy for 2019–20* reflects Budget 2019 fiscal projections.

The *Financial Administration Act* requires that the Government table in Parliament, prior to the start of the fiscal year, a report on the anticipated borrowing to be undertaken in the year ahead, including the purposes for which the money will be borrowed. The *Debt Management Strategy* fulfills this requirement.

Outlook for Government of Canada Debt

The Government of Canada continues to receive triple-A credit ratings, with a stable outlook, from major rating agencies that evaluate its financial position.

Those rating agencies indicate that Canada's triple-A credit ratings are supported by strong political institutions, economic resilience and economic diversity, well-regulated financial markets, and monetary and fiscal flexibility. They also note that the country's effective, stable and predictable policy-making contributes to stable financing demand from long-term investors.

Canada's general government gross debt and net debt positions also remain favourable. According to the International Monetary Fund (IMF), Canada's net debt-to-GDP (gross domestic product) ratio is the lowest in the Group of Seven (G7), reflecting significant holdings of financial assets.

Planned Borrowing Activities for 2019–20

Borrowing Authority

The authority to manage public debt flows from the *Borrowing Authority Act* and Part IV of the *Financial Administration Act*, which together allow the Minister of Finance to borrow money up to a maximum amount as approved by Parliament.

Parliament granted its approval of a maximum stock of outstanding government and Crown corporation market debt of \$1,168 billion via the *Borrowing Authority Act*, which came into force on November 23, 2017. Outstanding government and Crown corporation market debt is projected to reach \$1,070 billion by the end of 2019–20, including \$754 billion in projected year-end government market debt and an anticipated Crown corporation market debt stock of approximately \$316 billion.

The Government is therefore not expected to exceed the maximum authorized amount of borrowings under the *Borrowing Authority Act* in 2019–20 and will not seek any changes to the current Parliamentary approval. The Government will provide a more fulsome report to Parliament on the borrowing authority by November 2020, as required by the *Borrowing Authority Act*.

The projected sources and uses of borrowings are presented in Table A4.2. Actual borrowings and uses of funds for the upcoming fiscal year compared with the projections will be reported in the *Debt Management Report for 2019–20*, and detailed accounting information on the Government's interest-bearing debt will be provided in the *Public Accounts of Canada 2020*.

Sources of Borrowings

The aggregate principal amount of money to be borrowed by the Government in 2019–20 is projected to be \$280 billion. All borrowing will be sourced from domestic and foreign wholesale markets (Table A4.2).

Table A4.2

Planned/Actual Sources and Uses of Borrowings for Fiscal Year 2019–20
billions of dollars

Sources of borrowings	
Payable in Canadian currency	
Treasury bills ¹	151
Bonds ²	119
Total payable in Canadian currency	270
Payable in foreign currencies	10
Total cash raised through borrowing activities	280
Uses of borrowings	
Refinancing needs	
Payable in Canadian currency	
Treasury bills	131
Bonds	111
Of which:	
Switch bond buybacks	1
Cash management bond buybacks	40
Retail debt	1
Total payable in Canadian currency	243
Payable in foreign currencies	7
Total refinancing needs	250
Financial source/requirement	
Budgetary balance	20
Non-budgetary transactions	
Pension and other accounts	-6
Non-financial assets	3
Loans, investments and advances	8
Of which:	
Loans to enterprise Crown corporations	7
Other	1
Other transactions ³	8
Total non-budgetary transactions	12
Total financial source/requirement	
Adjustment for risk ⁴	-3
Change in other unmatured debt transactions ⁵	1
Net increase or decrease (-) in cash	0
Total uses of borrowings	280

Notes: Numbers may not add due to rounding. A negative sign denotes a financial source.

¹ Treasury bills are rolled over, or refinanced, a number of times during the year. This results in a larger number of new issues per year than the stock of outstanding at the end of the fiscal year, which is presented in the table.

² Includes switch buyback issuance.

³ Other transactions primarily comprise the conversion of accrual transactions to cash inflows and outflows for taxes and other accounts receivable, provincial and territorial tax collection agreements, amounts payable to taxpayers and other liabilities, and foreign exchange accounts.

⁴ The \$3 billion risk adjustment included for prudent fiscal planning purposes is removed to increase the accuracy of borrowing needs. If the risk adjustment is needed, the debt strategy can be adjusted accordingly.

⁵ Includes cross-currency swap revaluation, unamortized discounts on debt issues, obligations related to capital leases and other unmatured debt.

Uses of Borrowings

The Government's borrowing needs are driven by the Government's refinancing of maturing debt and projected financial requirements.

Financial requirements measure the net cash flow associated with the Government's budgetary and non-budgetary transactions.⁴ If the Government has a net cash inflow (financial source), it can use the cash to decrease the total debt stock. However, as is currently the case, if a net cash outflow (financial requirement) is projected, the Government must meet that requirement by increasing the total debt stock or by drawing down cash balances.

In 2019–20, the refinancing of maturing debt is projected to be \$250 billion, the financial requirement is projected to be approximately \$32 billion, and the Government's cash balances are not projected to change as new borrowings are expected to meet all borrowing requirements.

Actual borrowings for the year may differ due to uncertainty associated with economic and fiscal projections, the timing of cash transactions, and other factors such as changes in foreign reserve needs and Crown corporation borrowings. To adjust for unexpected changes in financial requirements, debt issuance can be altered during the year—typically through changes in the issuance of treasury bills as well as the 3-year sector.

Objectives

The fundamental objectives of debt management are to raise stable and low-cost funding to meet the financial needs of the Government of Canada and to maintain a well-functioning market for Government of Canada securities.

Achieving stable, low-cost funding involves striking a balance between the cost and risk associated with the debt structure as funding needs and market conditions vary. Having access to a well-functioning government securities market ensures that funds can be raised efficiently over time to meet the Government's needs. Moreover, to support a liquid and well-functioning market for Government of Canada securities, the Government strives to promote transparency and consistency.

Debt Structure Planning

The *Debt Management Strategy for 2019–20* is informed by an analysis of several possible debt structures over a wide range of economic and interest rate scenarios and forecasts over a medium-term horizon. Market participants are also consulted as part of the process of developing the debt management strategy.

The Government seeks to strike a balance between keeping funding costs low and mitigating risks, as measured by metrics such as debt rollover and the variation in annual debt-service charges.

⁴ Budgetary transactions include government revenues and expenses. Non-budgetary transactions include changes in federal employee pension accounts; changes in non-financial assets; investing activities through loans, investments and advances; and changes in other financial assets, including foreign exchange activities.

Composition of Market Debt

The stock of total market debt is projected to reach \$754 billion by the end of 2019–20 (Table A4.3).

Table A4.3

Change in Composition of Market Debt

billions of dollars, end of fiscal year

	2015–16 Actual	2016–17 Actual	2017–18 Actual	2018–19 Estimated	2019–20 Projected
Domestic bonds ¹	504	536	576	574	583
Treasury bills	138	137	111	131	151
Foreign debt	22	18	16	16	19
Retail debt	5	5	3	2	1
Total market debt	670	695	705	723	754

Note: numbers may not add due to rounding.

¹ Includes additional debt that accrues during the fiscal year as a result of the inflation adjustments to Real Return Bonds.

Over the next decade, the share of domestic market debt outstanding with original terms to maturity of 10 years or more is projected to stay at about the current level (i.e., around 40 per cent). Additionally, the average term to maturity of domestic market debt is projected to remain relatively stable at around 5.5 to 6.5 years over the medium term.

The Government of Canada continues to follow prudent debt management practices compared to global peers. Canada's level of federal market debt as a proportion of GDP is the lowest among G7 countries. Despite this, Canada has continued to prudently issue debt across different maturity sectors and has maintained a weighted average term to maturity similar to that of most G7 countries.

2019–20 Treasury Bill Program

Bi-weekly issuance of 3-, 6- and 12-month maturities will be continued in 2019–20, with bi-weekly auction sizes projected to be largely in the \$9 billion to \$15 billion range. The Government is making changes to increase the projected year-end stock of treasury bills to an expected level of \$151 billion. This approach will support a liquid and well-functioning market for Canadian federal government treasury bills.

Cash management bills (i.e., short-dated treasury bills) help manage government cash requirements in an efficient manner. These instruments will also continue to be used in 2019–20.

2019–20 Bond Program

In 2019–20, gross bond issuance is projected to be around \$119 billion (Table A4.4). This approach balances liquidity requirements in both the treasury bill and core benchmark bond sectors necessary to promote market well-functioning, while also satisfying the Government’s objective of achieving stable, low-cost funding. Along with treasury bills, issuance in the 3-year sector may be adjusted to address unexpected changes in financial requirements.

Table A4.4

Bond Issuance Plan for 2019–20

billions of dollars, end of fiscal year

	2015–16 Actual	2016–17 Actual	2017–18 Actual	2018–19 Estimated	2019–20 Projected
Gross bond issuance ¹	93 ³	135 ³	138	100	119
Bond buybacks on a switch basis	-1	-1	-1	-1	-1
Net issuance	93	134	137	99	118
Maturing bonds and adjustments ²	-78	-103	-97	-101	-110
Change in bond stock	16	32	40	-2	8

Note: numbers may not add due to rounding.

¹ Includes switch buyback issuance and additional debt that accrues during the fiscal year as a result of the inflation adjustments to Real Return Bonds.

² Includes cash management bond buybacks.

³ Historic bond issuances are accounted for at market value.

Maturity Date Cycles and Benchmark Bond Target Range Sizes

For 2019–20, increases in benchmark bond target ranges are planned relative to fiscal year 2018–19 (Table A4.5).

Table A4.5

Maturity Date Patterns and Benchmark Size Ranges

billions of dollars

	Feb.	Mar.	May	June	Aug.	Sept.	Nov.	Dec.
2-year	9-15		9-15		9-15		9-15	
3-year ¹		6-12				6-12		
5-year		12-18				12-18		
10-year				10-16				
30-year ²							12-18	
Real Return Bonds ^{2,3}							9-15	
Total	9-15	18-30	9-15	10-16	9-15	18-30	9-15	9-18 ²

Note: These amounts do not include coupon payments.

¹ Issuance in the 3-year sector will be fungible with the previous 5-year benchmark bonds. The benchmark size range for the 3-year sector presented here is in addition to fungible outstanding previous 5-year benchmark bonds.

² The 30-year nominal bond and Real Return Bond do not mature each year or in the same year as each other.

³ Includes estimate for inflation adjustment.

Bond Auction Schedule

In 2019–20, there will be quarterly auctions of 2-, 3-, 5- and 10-year bonds. Some of these bonds may be issued multiple times per quarter. The number of planned auctions in 2019–20 for each bond sector is shown in Table A4.6. The actual number of auctions that occur may be different than the planned number of auctions due to unexpected changes in borrowing requirements.

Table A4.6

Number of Planned Bond Auctions for 2019–20

Sector	Planned Bond Auctions
2-year	16
3-year	8
5-year	8
10-year	4
30-year	3
30-year switch buyback	2
Real Return Bond	3

The dates of each auction will continue to be announced through the *Quarterly Bond Schedule* that is published on the Bank of Canada's website prior to the start of each quarter (www.bankofcanada.ca/stats/cars/results/bd_auction_schedule.html).

Bond Buyback Programs

The Government plans to continue conducting regular bond buybacks on a switch basis as well as cash management bond buybacks.

Two bond buyback operations on a switch basis are planned for 2019–20. These operations would occur for bonds that were originally issued with terms to maturity of 30 years. The dates of each operation will continue to be announced through the *Quarterly Bond Schedule* that is published on the Bank of Canada's website prior to the start of each quarter.

The cash management bond buyback program helps to manage government cash requirements by reducing large bond maturities. Weekly cash management bond buyback operations will be continued in 2019–20. A pilot project to increase the flexibility in the maximum repurchase amount was introduced in January 2017, and this change was made permanent in November 2018.

Management of Canada's Official International Reserves

The Exchange Fund Account (EFA), which is held in the name of the Minister of Finance, represents the largest component of Canada's official international reserves. It is a portfolio of Canada's liquid foreign exchange reserves and special drawing rights (SDRs)⁵ used to aid in the control and protection of the external value of the Canadian dollar and to provide a source of liquidity to the Government. In addition to the EFA, Canada's official international reserves include Canada's reserve position held at the IMF.

The Government borrows to invest in liquid reserves, which are maintained at a level at or above 3 per cent of nominal GDP. Net funding requirements for 2019–20 are estimated to be around US\$9 billion, but may vary as a result of movements in foreign interest rates and exchange rates.

The mix of funding sources used to finance the liquid reserves in 2019–20 will depend on a number of considerations, including relative cost, market conditions and the objective of maintaining a prudent foreign-currency-denominated debt maturity structure. Potential funding sources include a short-term US-dollar paper program (Canada bills), medium-term notes, cross-currency swaps involving the exchange of Canadian dollars for foreign currency to acquire liquid reserves, and the issuance of global bonds.

Further information on foreign currency funding and the foreign reserve assets is available in the *Report on the Management of Canada's Official International Reserves* (www.fin.gc.ca/purl/efa-eng.asp) and in *The Fiscal Monitor* (www.fin.gc.ca/pub/fm-rf-index-eng.asp).

Cash Management

The core objective of cash management is to ensure the Government has sufficient cash available at all times to meet its operating requirements.

Cash consists of moneys on deposit with the Bank of Canada, chartered banks and other financial institutions. Cash with the Bank of Canada includes operational balances and balances held for prudential liquidity. Periodic updates on the liquidity position are available in *The Fiscal Monitor* (www.fin.gc.ca/pub/fm-rf-index-eng.asp).

Prudential Liquidity

The Government holds liquid financial assets in the form of domestic cash deposits and foreign exchange reserves to safeguard its ability to meet payment obligations in situations where normal access to funding markets may be disrupted or delayed. The Government's overall liquidity levels cover at least one month of net projected cash flows, including coupon payments and debt refinancing needs.

⁵ SDRs are international reserve assets created by the IMF whose value is based on a basket of international currencies.

ANNEX 5

Government Tax Expenditure and Spending Reviews

Overview

In 2015, the Government committed to achieving up to \$3 billion in annual savings by 2019–20 through a number of targeted changes to federal tax expenditures and program spending.

As a first step, in Budget 2016, the Government announced a significant cut to its advertising budget and federal spending on professional services and travel. As a result of these early actions, \$221 million in annual savings were made available to reinvest in better government services, and new and enhanced programs to strengthen and grow the middle class.

Since then, the Government has undertaken a comprehensive review of federal tax expenditures. Over the four-year period ending in 2018–19, the tax expenditure review resulted in savings of \$3.9 billion, and will lead to estimated savings of more than \$3 billion annually starting in 2019–20.

Table A5.1

Total Savings Realized From Tax Measures and Government Spending Reviews Since 2015

millions of dollars

	2015–2016	2016–2017	2017–2018	2018–2019	2019–2020	2020–2021
Pre-Budget 2019 Tax Savings (Table A5.2)	20	371	1,200	2,319	3,020	3,720
Budget 2019 Tax Savings (Table A5.3)					75	154
Spending Review Savings (Table A5.4)	222	231	235	237	237	237
Total Estimated Savings Achieved	242	602	1,435	2,556	3,332	4,111
2015 Savings Commitment		500	1,000	2,000	3,000	3,000

The continuous improvement of government programming is vital to ensuring that tax dollars are delivering the value and results that Canadians expect and deserve.

In addition to the review of its tax expenditures, the Government undertook several comprehensive program spending reviews to ensure that the resources invested in these areas are administered effectively and continue to deliver value for Canadians.

Tax Expenditure Review

In Budget 2016, the Government committed to undertake a wide-ranging review of federal tax expenditures. Individuals and businesses had expressed concerns about the efficiency and fairness of Canada's tax system, and how the increasing number of tax expenditures had made the federal tax system more complex.

The review's objectives were to eliminate poorly targeted and inefficient tax measures, and allow the Government to identify opportunities to reduce tax benefits that unfairly help the wealthiest Canadians rather than the middle class and those working hard to join it.

The Government has completed a wide-ranging review of federal tax expenditures to ensure that they are fair for Canadians, efficient and fiscally responsible.

- The Government's comprehensive review has resulted in the elimination of measures that were found to be ineffective and inefficient.
- The review also identified opportunities to crack down on tax evasion and aggressive tax avoidance, and reduce tax benefits that disproportionately helped the wealthiest Canadians rather than the middle class and those working hard to join it.
- Finally, the review led to measures that made existing tax relief for individuals and families more effective and accessible.

In each of its budgets, the Government has made improvements to the tax system—many of which have been informed by this comprehensive review. Table A5.2 below provides a detailed breakdown of the savings resulting from tax measures introduced from the beginning of the Government's mandate up to and including Budget 2018.

**Table A5.2
Savings Realized From Tax Measures Undertaken
From Beginning of Mandate to Budget 2018**
millions of dollars

Measure	2015–2016	2016–2017	2017–2018	2018–2019	2019–2020	2020–2021
Multiplication of the Small Business Deduction	-	-5	60	55	45	40
Avoidance of the Business Limit and Taxable Capital Limit	-	-1	10	10	10	10
Life Insurance Policies	-	30	35	35	35	40
Debt-Parking to Avoid Foreign Exchange Gains	-	-	-	-	-	-
Valuation for Derivatives	-	-	-	-	-	-
Cross-Border Surplus Stripping	-	-	-	-	-	-
Extension of Back-to-Back Rules	-	-	-	-	-	-
Taxation of Switch Fund Shares	-	-	75	145	145	145
Sales of Linked Notes	-	65	-20	-	45	45
Restricting the Relief of Excise Tax on Diesel and Aviation Fuel	-	35	45	45	40	40

Table A5.2

**Savings Realized From Tax Measures Undertaken
From Beginning of Mandate to Budget 2018**
millions of dollars

Measure	2015– 2016	2016– 2017	2017– 2018	2018– 2019	2019– 2020	2020– 2021
GST/HST Closely Related Test	-	-	-	-	-	-
Cracking Down on Tax Evasion and Combating Tax Avoidance <i>(Net Federal Revenue Impact)</i>						
Budget 2016	154	312	398	473	775	
Budget 2017		122	232	335	511	
Budget 2018			32	46	45	
Enhancing Tax Collections ¹	-32	-56	-80	-105	-78	
Children's Fitness and Arts Tax Credits	20	120	245	250	255	260
Principal Residence Exemption Measure of October 2016	-	-	-	-	-	-
Automatic Exchange of Information for Tax Purposes	-	-	-	-	-	-
Registered Education Savings Plan and Registered Disability Savings Plan Anti-Avoidance Rules	-	-	-	-	-	-
Meaning of Factual Control	-	-	-	-	-	-
Timing of Recognition of Gains and Losses on Derivatives	-	54	60	60	65	
Extending the Base Erosion Rules to Foreign Branches of Canadian Life Insurers	-	-	-	-	-	-
Public Transit Tax Credit	-	150	205	210	220	
Taxation of Benefits in Respect of Home Relocation Loans	-	-	-	-	-	-
Billed-Basis Accounting	-	35	220	170	-	
Tax Exemption for Insurers of Farmers and Fishers	-	-	-	-	10	10
Accelerated Deductibility of Some Canadian Exploration Expenses	-	-	-	-	45	55
Reclassification of Expenses Under Flow-Through Shares	-	-	-	-	2	2
Eliminating Tax Exemptions of Allowances for Certain Public Officials	-	-	6	30	30	
GST/HST Rebate to Non-Residents for Tour Package Accommodations	-	10	15	15	15	15
Additional Deduction for Gifts of Medicine	-	-	-	-	-	-
Investment Tax Credit for Child Care Spaces	-	-	-	-	-	-
Income Sprinkling announcement of December 2017	45	190	200	205		
Taxi and Ride-Sharing Services	3	4	4	4		
Passive Investment Income— Business Limit	-	-2	120	430		

Table A5.2

**Savings Realized From Tax Measures Undertaken
From Beginning of Mandate to Budget 2018**
millions of dollars

Measure	2015– 2016	2016– 2017	2017– 2018	2018– 2019	2019– 2020	2020– 2021
Passive Investment Income—						
Refundability of Taxes on Investment Income			-	45	185	220
Artificial Losses Using Equity-Based Financial Instruments			-	135	245	265
Stop-Loss Rule on Share Repurchase Transactions			-	230	315	275
At-risk Rules for Tiered Partnerships			-	-	-	-
Amendment to Section 212.1—			-	-	-	-
Cross-Border Surplus Stripping			-	-	-	-
Foreign Accrual Property Income Avoidance Using Tracking Interests			-	-	-	-
CRA Common International Data Standard—Phase II				-5	-6	-9
Tax Savings Total (of measures introduced from the beginning of the mandate to Budget 2018)	20	371	1,200	2,319	3,020	3,720

Notes: “-” indicates a nil amount, a small amount (less than \$500,000) or an amount that cannot be determined in respect of a measure that is intended to protect the tax base.

For years prior to the implementation of a measure, the corresponding cells for this measure have been left blank.

¹ It is anticipated that this proposal will result in the collection of an additional \$7.4 billion in tax debt over five years.

Additional Tax Savings Introduced in Budget 2019

Budget 2019 builds on the Government's earlier efforts to build an economy that works for everyone, and maintain a tax system in which all Canadians pay their fair share. It also proposes measures to further strengthen the Canada Revenue Agency's ability to crack down on tax evasion and combat tax avoidance, and makes additional progress in closing tax loopholes.

Table A5.3 provides a breakdown of the savings resulting from tax measures proposed in Budget 2019.

Table A5.3

Savings Realized From Tax Measures Introduced in Budget 2019 millions of dollars

Measure	2015–2016	2016–2017	2017–2018	2018–2019	2019–2020	2020–2021
Foreign Affiliate Dumping				-	-	-
Transfer Pricing Measures				-	-	-
Cross-Border Share Lending Arrangements				-	-	-
Character Conversion Transactions				-	-	-
Mutual Funds: Allocation to Redeemers Methodology				-	25	105
Pensionable Service Under an Individual Pension Plan				-	-	-
Carrying on a Business in a Tax-Free Savings Account				-	-	-
CRA Measures to Enhance Tax Compliance					50	49
Tax Savings Total (of measures included in Budget 2019)				-	75	154

Notes: “-” indicates a nil amount, a small amount (less than \$500,000) or an amount that cannot be determined in respect of a measure that is intended to protect the tax base. For years prior to the implementation of a measure, the corresponding cells for this measure have been left blank.

To ensure the tax system operates as fairly and effectively as possible moving forward, the Government will continue to study, identify and address tax loopholes and tax planning schemes.

Government Spending Reviews

Responsible fiscal management requires that government spending and programming be managed wisely and be continuously improved in order to ensure that the investment of Canadian taxpayer dollars is delivering results in the most effective and efficient manner possible. Since 2015, the Government has undertaken a number of targeted program expenditure reviews to specifically achieve this aim.

Review	Impact
Professional Services, Travel and Advertising Reductions	In Budget 2016, the Government announced annual reductions of \$221 million in professional services, travel and government advertising, starting in 2016–17. The savings created as a result of these reductions enabled a better alignment of government spending with priorities.
Transport Canada Comprehensive Review	In 2016–17, Transport Canada undertook a Comprehensive Review of all departmental activities to identify and eliminate poorly targeted and inefficient programs. Savings identified through the Review were reprioritized to support government priorities within the department.
Fisheries and Oceans and the Canadian Coast Guard Comprehensive Review	In 2016–17, Fisheries and Oceans Canada and the Canadian Coast Guard undertook a Comprehensive Review. This review resulted in the reallocation of \$22 million per year ongoing in existing departmental resources to higher priority activities in the department's mandate.
Health Canada Comprehensive Review	In 2017–18, Health Canada undertook a Comprehensive Review of all program spending to ensure alignment with mandate, efficiency, effectiveness and program integrity. The review concluded that the department's programs are well-aligned with the mandate and positioned to deliver on the Government's priorities, and identified opportunities for reinvestment in core regulatory activities, such as the enforcement of drug and medical device regulations.

Review	Impact
Canada Border Services Agency Review	In 2017–18, the Canada Border Services Agency undertook a Comprehensive Review across its programs to ensure alignment with the agency's mandate and government priorities, and to identify opportunities to strengthen program efficiencies and effectiveness. Through the Review, the agency considered key priorities including ways to support financial and operational sustainability, the integrity of border infrastructure, continued delivery of core responsibilities, and opportunities to modernize border operations to keep pace with the growing volume of goods and people crossing the Canadian border.
Royal Canadian Mounted Police (RCMP) Review	In 2015, the RCMP began the process of undertaking a review of activities, programs and services with a view to better understanding resourcing requirements across business lines. The review provided a better understanding of the cost pressures facing the RCMP, efforts to streamline internal operations and enhance capacity, and challenges and opportunities to begin modernization of policing while focusing on delivering results to and for Canadians.

A detailed breakdown of the savings that were created as a result of several of the comprehensive reviews outlined above can be found in Table A5.4 below.

Table A5.4

Estimated Savings Realized From Government Spending Reviews

Undertaken Since 2015

millions of dollars

Review	2015–2016	2016–2017	2017–2018	2018–2019	2019–2020	2020–2021	2021–2022	2022–2023
Professional Services, Travel and Advertising Reductions	221	221	221	221	221	221	221	221
Transport Canada Comprehensive Review	1	10	14	16	16	16	16	16
Estimated Total Review Savings Achieved	222	231	235	237	237	237	237	237

Tax Measures: Supplementary Information

Tax Measures: Supplementary Information

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Overview

This annex provides detailed information on each of the tax measures proposed in the Budget.

Table 1 lists these measures and provides estimates of their budgetary impact.

The annex also provides the Notices of Ways and Means Motions to amend the *Income Tax Act*, the *Excise Tax Act*, the *Excise Act, 2001* and other related legislation and draft amendments to related regulations.

In this annex, references to "Budget Day" are to be read as references to the day on which this Budget is presented.

Table 1
Cost of Proposed Tax Measures^{1,2}
Fiscal Costs (millions of dollars)

	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	2023- 2024	Total
Personal Income Tax							
Canada Training Credit	-	35	155	185	210	230	815
Less savings due to claimed amounts not qualifying under the Tuition Tax Credit	-	(5)	(20)	(25)	(25)	(30)	(105)
Home Buyers' Plan – Withdrawal Limit	-	20	20	20	20	20	100
Home Buyers' Plan – Breakdown of a Marriage or Common-Law Partnership	-	5	10	10	10	10	45
Change in Use Rules for Multi-Unit Residential Properties*	-	-	-	-	-	-	-
Permitting Additional Types of Annuities under Registered Plans – Advanced Life Deferred Annuities*	-	-	-	2	4	5	11
Permitting Additional Types of Annuities under Registered Plans – Variable Payment Life Annuities*	-	-	-	-	-	-	-
Registered Disability Savings Plan – Cessation of Eligibility for the Disability Tax Credit ³	-	3	17	28	30	31	109
Tax Measures for Kinship Care Providers*	-	-	-	-	-	-	-
Donations of Cultural Property	-	-	-	-	-	-	-
Medical Expense Tax Credit*	-	-	-	-	-	-	-
Contributions to a Specified Multi-Employer Plan for Older Members*	-	-	-	-	-	-	-
Pensionable Service Under an Individual Pension Plan	-	-	-	-	-	-	-
Mutual Funds: Allocation to Redeemers Methodology	-	(25)	(105)	(90)	(75)	(55)	(350)
Carrying on a Business in a Tax-Free Savings Account*	-	-	-	-	-	-	-
Electronic Delivery of Requirements for Information*	-	-	-	-	-	-	-
Business Income Tax							
Business Investment in Zero-Emission Vehicles	-	14	21	40	90	100	265
Small Business Deduction – Farming and Fishing	-	-	-	-	-	-	-
Scientific Research and Experimental Development Program	-	5	80	100	105	105	395
Canadian-Belgian Co-productions – Canadian Film or Video Production Tax Credit*	-	-	-	-	-	-	-
Character Conversion Transactions	-	-	-	-	-	-	-

Table 1
Cost of Proposed Tax Measures^{1,2}
Fiscal Costs (millions of dollars)

	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	2023- 2024	Total
<i>Support for Canadian Journalism</i>							
Qualified Donee Status	-	6	25	32	22	11	96
Refundable Labour Tax Credit	-	-	75	95	95	95	360
Tax Credit for Digital Subscriptions	-	5	26	31	36	41	138
<i>Less: Amounts Provisioned In the Fiscal Framework</i>	-	(45)	(105)	(130)	(150)	(165)	(595)
International Tax Measures							
Transfer Pricing Measures	-	-	-	-	-	-	-
Foreign Affiliate Dumping	-	-	-	-	-	-	-
Cross-Border Share Lending Arrangements	-	-	-	-	-	-	-
Sales and Excise Tax Measures							
GST/HST Health Measures	-	-	-	-	-	-	-
Cannabis Taxation	-	-	-	-	-	-	-
Total Tax Measures Included in Budget 2019							
- Gross Impact	-	63	304	428	522	563	1,879
- Net Fiscal Impact	-	18	199	298	372	398	1,284
Of Which: Amounts Only in this Annex (*)	-	-	-	2	4	5	11

¹ A “-” indicates a nil amount, a small amount (less than \$500,000) or an amount that cannot be determined in respect of a measure that is intended to protect the tax base.

² Totals may not add due to rounding.

³ The cost of this measure is attributable to program expenditure.

Personal Income Tax Measures

Canada Training Credit

Budget 2019 proposes to introduce the Canada Training Benefit to address barriers to professional development for working Canadians. The Canada Training Benefit will include as one of its key components the new Canada Training Credit, a refundable tax credit aimed at providing financial support to help cover up to half of eligible tuition and fees associated with training. Eligible individuals will accumulate \$250 each year in a notional account which can be accessed for this purpose.

In order to accumulate the amount of \$250 in respect of a year, an individual must:

- file a tax return for the year;
- be at least 25 years old and less than 65 years old at the end of the year;
- be resident in Canada throughout the year;
- have earnings (including income from an office or employment, self-employment income, Maternity and Parental Employment Insurance benefits or benefits paid under the Act respecting parental insurance, the taxable part of scholarship income, and the tax-exempt part of earnings of status Indians and emergency service volunteers) of \$10,000 or more in the year; and
- have individual net income for the year that does not exceed the top of the third tax bracket for the year (\$147,667 in 2019).

A taxpayer's notional account balance will be communicated to them each year in their Notice of Assessment and will be available through the Canada Revenue Agency's My Account portal. The amount of a credit that can be claimed for a taxation year will be equal to the lesser of half of the eligible tuition and fees paid in respect of the taxation year and the individual's notional account balance for the taxation year (based on amounts used or accumulated in respect of previous years). The amount claimed will offset, dollar for dollar, tax otherwise payable or will be refunded to the individual to the extent that the amount exceeds tax otherwise payable.

An individual who claims the credit for a given taxation year may still accumulate an entitlement to \$250 in respect of that year. The credit will be available to be claimed for a taxation year even if the individual's earnings or income preclude them from accumulating an amount in respect of that year. However, an individual must be resident in Canada throughout a year to claim the credit for the year.

Individuals will be able to accumulate up to a maximum amount of \$5,000 over a lifetime. Any unused balance will expire at the end of the year in which an individual turns 65.

Example:

- Michelle is eligible to accumulate an amount of \$250 in respect of each year starting in 2019. Her notional account balance for 2023 is \$1,000.
- In 2023, Michelle enrolls in training and pays \$1,500 in eligible tuition fees. She can claim a refundable tax credit worth \$750 for the 2023 taxation year.
- Michelle is also eligible to accumulate an amount of \$250 in respect of 2023. As a result, her notional account balance for 2024 is \$500 (\$250 in unused balance from the prior year in addition to the annual \$250 amount). She will then be able to accumulate up to an additional \$3,750 in her notional account over her lifetime.

Eligible Tuition and Other Fees

Tuition and other fees eligible for the Canada Training Credit will generally be the same as under the existing rules for the Tuition Tax Credit, a 15-per-cent non-refundable tax credit on fees paid in respect of a year for an individual enrolled at an eligible educational institution. In particular, eligible fees will include:

- tuition fees;
- ancillary fees and charges (e.g., admission fees, exemption fees and charges for a certificate, diploma or degree); and
- examination fees.

As in the case of the Tuition Tax Credit, an eligible educational institution in Canada will be:

- a university, college or other educational institution providing courses at a post-secondary level; or
- an institution providing occupational-skills courses that is certified by the Minister of Employment and Social Development.

Unlike the Tuition Tax Credit, educational institutions outside of Canada will not be eligible for the purpose of the Canada Training Credit.

The portion of the tuition fees refunded through the Canada Training Credit will not qualify as eligible expenses under the Tuition Tax Credit. The difference between the total eligible fees and the portion refunded through the Canada Training Credit will continue to qualify as eligible fees under the Tuition Tax Credit. In the example above, Michelle would have \$750 of eligible fees for the purposes of the Tuition Tax Credit (i.e., \$1,500 of total eligible fees less the \$750 refunded through the Canada Training Credit).

This measure will apply to the 2019 and subsequent taxation years. Consequently, the annual accumulation to the notional account will start based on eligibility in respect of the 2019 taxation year and the credit will be available to be claimed for expenses in respect of the 2020 taxation year.

Earning and income thresholds under the Canada Training Credit will be subject to annual indexation.

Home Buyers' Plan

The home buyers' plan (HBP) helps first-time home buyers save for a down payment by allowing them to withdraw up to \$25,000 from a registered retirement savings plan (RRSP) to purchase or build a home without having to pay tax on the withdrawal. First-time home buyers purchasing a home jointly may each withdraw up to \$25,000 from their own RRSP under the HBP.

Amounts withdrawn under the HBP must be repaid to an RRSP over a period not exceeding 15 years, starting the second year following the year in which the withdrawal was made. A special rule denies an RRSP deduction for contributions that are withdrawn under the HBP within 90 days of being contributed.

For HBP purposes, an individual is not considered to be a first-time home buyer if, in the relevant calendar year or in any of the four preceding calendar years,

- the individual, or the individual's spouse or common-law partner, owned and occupied another home, and
- that home was the individual's principal place of residence.

Withdrawal Limit

To provide first-time home buyers with greater access to their RRSPs to purchase or build a home, Budget 2019 proposes to increase the HBP withdrawal limit to \$35,000 from \$25,000. As a result, a couple will potentially be able to withdraw \$70,000 from their RRSPs to purchase a first home.

Special rules under the HBP apply to facilitate the acquisition of a home that is more accessible or better suited for the personal needs and care of an individual who is eligible for the disability tax credit, even if the first-time home-buyer requirement is not met. For these cases, the rules will also be modified to provide the same \$35,000 withdrawal limit.

This increase in the HBP withdrawal limit will apply to the 2019 and subsequent calendar years in respect of withdrawals made after Budget Day.

Breakdown of a Marriage or Common-Law Partnership

Budget 2019 also proposes to extend access to the HBP in order to help Canadians maintain homeownership after the breakdown of a marriage or common-law partnership.

Generally, an individual will not be prevented from participating in the HBP because they do not meet the first-time home buyer requirement, provided that the individual lives separate and apart from their spouse or common-law partner for a period of at least 90 days as a result of a breakdown in their marriage or common-law partnership. The individual will be able to make a withdrawal under the HBP if the individual lives separate and apart from their spouse or common-law partner at the time of the withdrawal and began to live separate and apart in the year in which the withdrawal is made or any time in the four preceding years. However, in the case where an individual's principal place of residence is a home owned and occupied by a new spouse or common-law partner, the individual will not be able to make an HBP withdrawal under these rules.

An individual will be required to dispose of their previous principal place of residence no later than two years after the end of the year in which the HBP withdrawal is made. The requirement to dispose of the previous principal place of residence will be waived for individuals buying out the share of the residence owned by the individual's spouse or common-law partner. The existing rule that individuals may not acquire the home more than 30 days before making the HBP withdrawal will also be waived in this circumstance.

Existing HBP rules will otherwise generally apply. For example, an individual's outstanding HBP balance must be nil at the beginning of the year in which the individual makes an HBP withdrawal.

This measure will apply to HBP withdrawals made after 2019.

Change in Use Rules for Multi-Unit Residential Properties

The *Income Tax Act* deems a taxpayer to have disposed of, and reacquired, a property when the taxpayer converts the property from an income-producing use (e.g., a rental property) to a personal use (e.g., a residential property) or vice versa. Where the use of an entire property is changed to an income-producing use, or an income-producing property becomes a principal residence, the taxpayer may elect that this deemed disposition not apply. As a consequence, the election can provide a deferral of the realization of any accrued capital gain on the property until it is realized on a future disposition.

As well, where an election is made on a conversion of a property to or from a principal residence, the property can be designated as a taxpayer's principal residence for an additional period of up to four years before or after the period for which the taxpayer could otherwise claim the principal residence exemption in respect of the property (provided no other principal residence exemption is claimed in respect of those additional years).

The deemed disposition also occurs when the use of part of a property is changed. For example, this can occur where a taxpayer owns a multi-unit residential property, such as a duplex, and either starts renting or moves into one of the units. However, under the current rules, a taxpayer cannot elect out of the deemed disposition that arises on a change in use of part of a property.

To improve the consistency of the tax treatment of owners of multi-unit residential properties in comparison to owners of single-unit residential properties, Budget 2019 proposes to allow a taxpayer to elect that the deemed disposition that normally arises on a change in use of part of a property not apply.

This measure will apply to changes in use of property that occur on or after Budget Day.

Permitting Additional Types of Annuities Under Registered Plans

The tax rules allow funds from certain registered plans to be used to purchase an annuity to provide income in retirement, subject to specified conditions. In exchange for a lump-sum amount of funds, an annuity provides a stream of periodic payments to an individual (i.e., the annuitant), generally for a fixed term, for the life of the annuitant or for the joint lives of the annuitant and the annuitant's spouse or common-law partner.

To provide Canadians with greater flexibility in managing their retirement savings, Budget 2019 proposes to permit two new types of annuities under the tax rules for certain registered plans:

- advanced life deferred annuities will be permitted under a registered retirement savings plan (RRSP), registered retirement income fund (RRIF), deferred profit sharing plan (DPSP), pooled registered pension plan (PRPP) and defined contribution registered pension plan (RPP); and
- variable payment life annuities will be permitted under a PRPP and defined contribution RPP.

The measures will apply to the 2020 and subsequent taxation years.

Advanced Life Deferred Annuities

The tax rules generally require an annuity purchased with registered funds to commence by the end of the year in which the annuitant attains 71 years of age.

Budget 2019 proposes to amend the tax rules to permit an advanced life deferred annuity (ALDA) to be a qualifying annuity purchase, or a qualified investment, under certain registered plans. An ALDA will be a life annuity the commencement of which may be deferred until the end of the year in which the annuitant attains 85 years of age.

Qualifying plans

An ALDA will be a qualifying annuity purchase under an RRSP, RRIF, DPSP, PRPP and defined contribution RPP. An ALDA will also be a qualified investment for a trust governed by an RRSP or a RRIF. Qualifying plan terms may need to be amended in order to permit the purchase of an ALDA under such plans.

The value of an ALDA will not be included for the purpose of calculating the minimum amount required to be withdrawn in a year from a RRIF, a PRPP member's account or a defined contribution RPP member's account, after the year in which the ALDA is purchased.

Limits

An individual will be subject to a lifetime ALDA limit equal to 25 per cent of a specified amount in relation to a particular qualifying plan. The specified amount will equal the sum of:

- the value of all property (other than most annuities, including ALDAs) held in the qualifying plan as at the end of the previous year; and
- any amounts from the qualifying plan used to purchase ALDAs in previous years.

In practice, this limit will apply only when an ALDA is purchased or when an additional amount is added to an existing ALDA contract. As a result, an individual will not be required to surrender or dispose of ALDAs in situations where the value of ALDA purchases in previous years exceeds the individual's lifetime ALDA limit for a particular year due to a decline in qualifying plan assets.

An individual will also be subject to a comprehensive lifetime ALDA dollar limit of \$150,000 from all qualifying plans. The lifetime ALDA dollar limit will be indexed to inflation for taxation years after 2020, rounded to the nearest \$10,000.

Annuity requirements

In order to qualify as an ALDA, the annuity contract will need to state that it intends to qualify as an ALDA and will need to satisfy certain requirements. These include the requirements that the annuity contract:

- provide annual or more frequent periodic payments for the life of the annuitant, or for the joint lives of the annuitant and annuitant's spouse or common-law partner, commencing no later than the end of the year in which the annuitant attains 85 years of age;
- provide, when the annuitant under a joint-life contract dies prior to commencement, payments that commence to the surviving spouse or common-law partner no later than the time at which the payments would have commenced if the annuitant had not died, where the value of the periodic payments must, if the payments commence before that time, be adjusted in accordance with generally accepted actuarial principles;
- provide periodic payments which are equal, except to the extent they are
 - adjusted annually to reflect in whole or in part changes to the Consumer Price Index or a fixed rate specified in the annuity contract not to exceed two per cent per year, or
 - reduced on the death of the annuitant or the annuitant's spouse or common-law partner;
- provide that, following the death of the annuitant, a lump-sum death benefit (if any) provided to a beneficiary does not exceed the premium paid for the annuity less the sum of all payments received by the annuitant or, in the case of a joint-life contract, the sum of all payments received by the annuitant and the annuitant's spouse or common-law partner prior to death;

- permit a refund to the annuitant of any portion of the premium paid for the contract to the extent that the premium paid for the contract exceeded the annuitant's ALDA limit; and
- provide no other payments, such as commutation or cash surrender payments, or payments under a guarantee period.

Tax treatment on death

Annuity payments to the surviving spouse or common-law partner of a deceased annuitant under a joint-life contract will be included in the income of the surviving spouse or common-law partner for tax purposes.

If the beneficiary of a lump-sum death benefit (i.e., a return of all or a portion of the premium paid to purchase the annuity) is the deceased annuitant's surviving spouse or common-law partner, or a financially dependent child or grandchild of the deceased annuitant, the lump-sum death benefit will be included in the income of the beneficiary for tax purposes. All or a portion of that amount will be permitted to be transferred on a tax-deferred basis (or "rollover" basis) to the RRSP, RRIF or other qualifying vehicle of the beneficiary provided that, where the beneficiary is a financially dependent child or grandchild, the beneficiary was dependent on the deceased annuitant by reason of physical or mental infirmity.

If the beneficiary of a lump-sum death benefit is neither the deceased annuitant's surviving spouse or common-law partner nor a financially dependent child or grandchild of the deceased annuitant, the lump-sum death benefit paid to a beneficiary will be included in the income of the deceased annuitant for tax purposes in the year of death.

Non-compliance

If an individual purchases ALDA contracts in excess of their ALDA limit, a tax of one per cent per month will apply to the excess portion. All or some of the tax on the excess portion may be waived or cancelled if the annuitant establishes the excess portion was paid as a consequence of a reasonable error, and the amount of the excess portion is returned to an RRSP, RRIF or other eligible vehicle of the annuitant by the end of the year following the year in which the excess portion was paid.

If an annuity contract that is intended to qualify as an ALDA does not comply with the ALDA requirements, it will be considered to be a non-qualifying annuity purchase or a non-qualified investment, as the case may be, and will be subject to the existing rules and taxes that apply to such purchases and investments.

Additional rules

Additional rules will be included, as necessary, in the draft amendments for the measure to be released for public comment.

Variable Payment Life Annuities

The tax rules generally require that retirement benefits from a PRPP or defined contribution RPP be provided to a member by means of a transfer of funds from the member's account to an RRSP or RRIF of the member, variable benefits paid from the member's account or an annuity purchased from a licensed annuities provider. However, in-plan annuities (annuities provided to members directly from a PRPP or defined contribution RPP) are generally not permitted under the tax rules.

Budget 2019 proposes to amend the tax rules to permit PRPPs and defined contribution RPPs to provide a variable payment life annuity (VPLA) to members directly from the plan. A VPLA will provide payments that vary based on the investment performance of the underlying annuities fund and on the mortality experience of VPLA annuitants.

Annuities fund

PRPP and defined contribution RPP administrators will be permitted to establish a separate annuities fund under the plan to receive transfers of amounts from members' accounts to provide VPLAs. Only transfers from a member's account will be permitted to be made to the annuities fund. Direct employee and employer contributions to the annuities fund will not be permitted.

A minimum of 10 retired members will be required to participate in a VPLA arrangement in order for a plan to establish such an arrangement and it must be reasonable to expect that at least 10 retired members will participate in the arrangement on an ongoing basis.

Annuity requirements

VPLAs will be required to comply with certain existing tax rules applicable to PRPPs and defined contribution RPPs, as well as additional requirements.

Specifically, a VPLA must:

- commence payments by the later of the end of the year in which the member attains 71 years of age and the end of the calendar year in which the VPLA is acquired;
- provide annual or more frequent periodic payments, after commencement, for the life of the annuitant, or for the joint-lives of the annuitant and the annuitant's spouse or common-law partner;
- provide periodic payments that reflect the value of the amount transferred from the member's account to acquire the VPLA, in accordance with generally accepted actuarial principles;
- provide periodic payments which are equal, except to the extent they are
 - adjusted annually to reflect in whole or in part changes to the Consumer Price Index or a fixed rate specified in the annuity contract not to exceed two per cent per year,
 - reduced on the death of the annuitant or the annuitant's spouse or common-law partner, or
 - adjusted to reflect the investment performance of the annuities fund and the mortality experience of the pool of VPLA annuitants;

- adjust periodic payments on an annual basis to reflect the investment performance of the annuities fund, if the investment performance differs materially compared to the investment performance under the assumptions on which the VPLA payments are based;
- adjust periodic payments on an annual basis to reflect the mortality experience of VPLA annuitants, if the mortality experience differs materially compared to the mortality assumptions on which the VPLA payments are based;
- provide that continuing periodic payments to a beneficiary under a guarantee period following the death of the annuitant, or the annuitant's spouse or common-law partner, reflect the periodic payments that would have been payable to the annuitant, or the annuitant's spouse or common-law partner, if they were alive; and
- provide that the commuted value of any remaining periodic payments payable to a beneficiary under a guarantee period following the death of the annuitant, or the annuitant's spouse or common-law partner, be determined in accordance with generally accepted actuarial principles.

Tax treatment on death

The tax treatment of VPLAs on the death of the annuitant will reflect the existing tax treatment of annuities purchased with PRPP and defined contribution RPP savings.

Non-compliance

The existing rules for PRPPs and defined contribution RPPs relating to non-compliance will apply in respect of non-compliance with the tax rules for VPLAs.

Additional rules

Additional rules will be included, as necessary, in the draft amendments for the measure to be released for public comment.

Pension benefits standards legislation

The Government will consult on potential changes to federal pension benefits standards legislation to accommodate VPLAs for federally regulated PRPPs and defined contribution RPPs. To the extent that provinces wish to accommodate VPLAs for provincially regulated PRPPs and defined contribution RPPs, they may need to amend their provincial pension benefits standards legislation.

Registered Disability Savings Plan – Cessation of Eligibility for the Disability Tax Credit

The registered disability savings plan (RDSP) is a tax-assisted savings vehicle intended to help an individual with a disability – and the individual's family – save for the individual's long-term financial security. An RDSP may be established only for a beneficiary who is eligible for the disability tax credit (DTC).

To encourage long-term saving, the Government of Canada supplements private RDSP contributions with Canada Disability Savings Grants and provides Canada Disability Savings Bonds under the Canada Disability Savings Program. These grants and bonds are eligible to be paid into an RDSP until the end of the year in which a beneficiary of the RDSP turns 49 years of age.

Current Treatment

When a beneficiary of an RDSP ceases to be eligible for the DTC, no contributions may be made to, and no Canada Disability Savings Grants and Canada Disability Savings Bonds may be paid into, the RDSP. The income tax rules generally require that the RDSP be closed by the end of the year following the first full year throughout which the beneficiary is not eligible for the DTC.

An RDSP issuer is required to set aside an amount (referred to as the "assistance holdback amount") equivalent to the total Canada Disability Savings Grants and Canada Disability Savings Bonds paid into the RDSP in the preceding 10 years, less any of these grants and bonds that have been repaid in respect of that 10-year period. This requirement ensures that RDSP funds are available to meet potential repayment obligations. Upon plan closure, the assistance holdback amount must be repaid to the Government. Any assets remaining in the RDSP after this repayment are paid to the beneficiary.

Previous amendments to the *Income Tax Act* allow an RDSP plan holder to elect to extend the period for which an RDSP may remain open after a beneficiary becomes ineligible for the DTC. To qualify for this extension, a medical practitioner must certify in writing that the nature of the beneficiary's condition makes it likely that the beneficiary will, because of the condition, be eligible for the DTC in the foreseeable future.

During the period for which an election is valid, the following rules apply, commencing with the first full calendar year throughout which the beneficiary is no longer eligible for the DTC:

- No contributions to the RDSP, including rollovers of registered education savings plan investment income, are permitted. The income tax rules do permit, however, a rollover of proceeds from a deceased individual's registered retirement savings plan or registered retirement income fund to the RDSP of a financially dependent infirm child or grandchild.
- The beneficiary is not eligible to receive Canada Disability Savings Grants or Canada Disability Savings Bonds and no new entitlements are generated in respect of any year throughout which the beneficiary is ineligible for the DTC.
- If the beneficiary dies during the election period, the RDSP is closed and the assistance holdback amount, determined immediately prior to the beneficiary becoming ineligible for the DTC, must be repaid to the Government.
- Withdrawals from the RDSP are permitted, subject to the regular repayment rules and the maximum and minimum withdrawal rules. For example, for each \$1 withdrawn from an RDSP, \$3 of any Canada Disability Savings Grants or Canada Disability Savings Bonds paid into the plan in the 10 years preceding the withdrawal must be repaid, up to the maximum of the assistance holdback amount, determined immediately prior to the beneficiary becoming ineligible for the DTC (referred to as the "proportional repayment rule").

An election is generally valid until the end of the fourth calendar year following the first full calendar year throughout which a beneficiary is ineligible for the DTC. If a beneficiary becomes eligible for the DTC while an election is valid, the regular RDSP rules apply commencing with the year in which the beneficiary becomes eligible. If the beneficiary does not regain eligibility for the DTC during the election period, the RDSP must be closed by the end of the first year following the end of the election period and the assistance holdback amount, determined immediately prior to cessation of the beneficiary's eligibility for the DTC, must be repaid to the Government.

Concerns have been raised that the requirements that an RDSP be closed and the assistance holdback amount repaid to the Government upon loss of eligibility for the DTC do not appropriately recognize the period of severe and prolonged disability experienced by an RDSP beneficiary.

Proposed Treatment

Budget 2019 proposes to remove the time limitation on the period that an RDSP may remain open after a beneficiary becomes ineligible for the DTC and to eliminate the requirement for medical certification that the beneficiary is likely to become eligible for the DTC in the future in order for the plan to remain open. The general rules that currently apply in respect of a period during which an election is valid, as described above, will apply to an RDSP in any period during which the beneficiary is ineligible for the DTC, with the following modifications:

- There will be no requirement for medical certification that the individual is likely to become eligible for the DTC in the future.
- Withdrawals from the RDSP will be subject to the proportional repayment rule, but the assistance holdback amount will be modified, depending on the beneficiary's age, in the following manner:
 - For years throughout which the beneficiary is ineligible for the DTC that are prior to the year in which the beneficiary turns 51 years of age, the assistance holdback amount will be equal to the assistance holdback amount determined immediately prior to the beneficiary becoming ineligible for the DTC, less any repayments made after the beneficiary becomes ineligible for the DTC.
 - Over the following 10 years, the assistance holdback amount will be reduced based on Canada Disability Savings Grants and Canada Disability Savings Bonds paid into the RDSP during a reference period. This reference period is initially the 10 years immediately prior to the beneficiary becoming ineligible for the DTC. Each year after the year in which the beneficiary turns 50 years of age, the reference period is reduced by a year. For example, for the year in which the beneficiary turns 51 years of age, the reference period will be the nine-year period immediately prior to the beneficiary becoming ineligible for the DTC. The assistance holdback amount will be equal to the amount of grants and bonds paid into the RDSP in those nine years, less any repayments of those amounts.
- A rollover of proceeds from a deceased individual's registered retirement savings plan or registered retirement income fund to the RDSP of a financially dependent infirm child or grandchild will be permitted only if the rollover occurs by the end of the fourth calendar year following the first full calendar year throughout which the beneficiary is ineligible for the DTC.

- A plan holder may, at any time during which the beneficiary is ineligible for the DTC, request closure of the RDSP of the beneficiary. Closure of an RDSP will be subject to the general rules that apply in the event of a closure, with the exception that the amount required to be repaid upon closure will be equal to the assistance holdback amount at that time, as modified above.

Example:

- Bruce's parents open an RDSP for him in 2009 at age five and contribute \$1,500 to his plan annually for 10 years, attracting the maximum amount of Canada Disability Savings Grants (\$3,500) each year. For 2019, the assistance holdback amount for his plan equals \$35,000. While his parents continue to contribute \$1,500 to his plan each year for the subsequent five years (attracting the maximum \$3,500 annually in Canada Disability Savings Grants), the assistance holdback amount for his plan remains at \$35,000, as grants received during the first five years that fall out of the assistance holdback amount, are replaced with new grant amounts.
- The effects of Bruce's disability improve such that he is determined to no longer be eligible for the DTC after 2023. Under the current rules, unless Bruce regains eligibility for the DTC, his plan would have to be closed by the end of 2025 (or by the end of 2029 under an election) and all Canada Disability Savings Grants received over the 2014 to 2023 period would have to be repaid.
- Under the proposed approach, Bruce could choose not to close his plan. While his plan remains open:
 - Withdrawals are allowed (up to the assistance holdback amount and subject to the repayment rules and the minimum and maximum withdrawal rules) but no contributions are permitted (except a rollover from an eligible registered retirement savings plan or registered retirement income fund before the end of 2028).
 - His assistance holdback amount is frozen at \$35,000 until the year he turns age 51 (in 2055), when the amount of his assistance holdback amount begins to decline by \$3,500 each year.

By 2064, the year Bruce turns age 60, he will be able to withdraw amounts from his RDSP and no longer be required to repay Canada Disability Savings Grants, as his assistance holdback amount has now been reduced to zero.

If a beneficiary regains eligibility for the DTC, the regular RDSP rules will apply commencing with the year in which the beneficiary becomes eligible for the DTC. For example, contributions will be permitted and new Canada Disability Savings Grants and Canada Disability Savings Bonds may be paid into the RDSP. Should the beneficiary become ineligible for the DTC at some later time, the proposed rules in respect of DTC ineligibility will resume.

This measure will apply after 2020. An RDSP issuer will not, however, be required to close an RDSP on or after Budget Day and before 2021 solely because the RDSP beneficiary is no longer eligible for the DTC.

Tax Measures for Kinship Care Providers

A number of provinces and territories offer kinship and close-relationship care programs (referred to as kinship care programs), such as the Prince Edward Island Grandparents and Care Providers program, as alternatives to foster care (or other formal care by the state) for children in need of protection who require out-of-home care on a temporary basis. As part of their kinship care programs, some of these jurisdictions provide financial assistance to care providers to help defray the costs of caring for the child.

Canada Workers Benefit

The Canada Workers Benefit is a refundable tax credit that supplements the earnings of low-income workers and improves work incentives for low-income Canadians. A higher benefit amount is provided to eligible families (couples and single parents) than to single individuals without dependants.

In order for an individual to be eligible as a single parent under the Canada Workers Benefit, the individual must be the parent of a child with whom the individual resides at the end of the taxation year. For income tax purposes, a parent includes an individual upon whom a child is wholly dependent for support. A concern has been raised that receipt of financial assistance under a kinship care program could preclude a care provider from being considered to be the parent of a child in their care for the purposes of the Canada Workers Benefit.

Budget 2019 proposes to amend the *Income Tax Act* to clarify that an individual may be considered to be the parent of a child in their care for the purpose of the Canada Workers Benefit, regardless of whether they receive financial assistance from a government under a kinship care program. Kinship care providers will thus be eligible for the Canada Workers Benefit amount available for families, provided all other eligibility requirements are met.

This measure will apply for the 2009 and subsequent taxation years.

Tax Treatment of Financial Assistance Payments

Under the *Income Tax Act*, social assistance payments made on the basis of a means, needs or income test are not taxable but must be included in income for the purposes of determining entitlement to income-tested benefits and credits. A concern has been raised that financial assistance payments received under certain kinship care programs may reduce benefit levels for some lower-income kinship care providers.

Budget 2019 also proposes to amend the *Income Tax Act* to clarify that financial assistance payments received by care providers under a kinship care program are neither taxable, nor included in income for the purposes of determining entitlement to income-tested benefits and credits.

This measure will apply for the 2009 and subsequent taxation years.

Donations of Cultural Property

The Government of Canada provides certain enhanced tax incentives to encourage donations of cultural property to certain designated institutions and public authorities in Canada, in order to ensure that such property remains in Canada for the benefit of Canadians. The enhanced tax incentives include a charitable donation tax credit (for individuals) or deduction (for corporations), which may eliminate the donor's tax liability for a year, and an exemption from income tax for any capital gains arising on the disposition.

To qualify for the incentives, a donated property must be of "outstanding significance" by reason of its close association with Canadian history or national life, its aesthetic qualities or its value in the study of the arts or sciences. In addition, it must be of "national importance" to such a degree that its loss to Canada would significantly diminish the national heritage. These requirements are set out in the *Cultural Property Export and Import Act* and are also used to regulate the export of cultural property out of Canada.

A recent court decision related to the export of cultural property interpreted the "national importance" test as requiring that a cultural property have a direct connection with Canada's cultural heritage. This decision has raised concerns that certain donations of important works of art that are of outstanding significance but of foreign origin may not qualify for the enhanced tax incentives.

To address these concerns, Budget 2019 proposes to amend the *Income Tax Act* and the *Cultural Property Export and Import Act* to remove the requirement that property be of "national importance" in order to qualify for the enhanced tax incentives for donations of cultural property. No changes are proposed that would affect the export of cultural property.

This measure will apply in respect of donations made on or after Budget Day.

Medical Expense Tax Credit

The medical expense tax credit is a 15-per-cent non-refundable tax credit that recognizes the effect of above-average medical or disability-related expenses on an individual's ability to pay tax. For 2019, the medical expense tax credit is available for qualifying medical expenses in excess of the lesser of \$2,352 and three per cent of the individual's net income.

Amounts paid for cannabis products may be eligible for the medical expense tax credit where such products are purchased for a patient for medical purposes in accordance with the *Access to Cannabis for Medical Purposes Regulations*, under the *Controlled Drugs and Substances Act*. However, cannabis is no longer regulated under this Act. Instead, as of October 17, 2018, access to cannabis is subject to the *Cannabis Regulations*, under the *Cannabis Act*. Eligible expenses for the medical expense tax credit will also include expenses for other classes of cannabis products purchased for a patient for medical purposes, once they become permitted for legal sale under the *Cannabis Act*.

Budget 2019 proposes to amend the *Income Tax Act* to reflect the current regulations for accessing cannabis for medical purposes.

This measure will apply to expenses incurred on or after October 17, 2018.

Contributions to a Specified Multi-Employer Plan for Older Members

In general, the pension tax rules effectively ensure that contributions to a defined benefit registered pension plan (RPP) in respect of a member are not made after the member can no longer accrue further pension benefits. Under the tax rules, pension benefits may not be accrued by a member after the end of the year in which the member attains 71 years of age or if the member has returned to work for the same or a related employer and is receiving a pension from the plan (except under a qualifying phased retirement program).

However, in the case of a specified multi-employer plan (SMEP), a specific type of union-sponsored, defined benefit pension plan, employer contributions are deemed to be eligible contributions in order to ensure that such plans can operate effectively under the pension tax rules. Consequently, and in contrast to other defined benefit RPPs, employers are not prevented by the pension tax rules from making contributions to a SMEP in respect of workers over age 71 or those receiving a pension from the plan, if such contributions are required by the plan. Furthermore, in requiring an employer to contribute in respect of employed union members, some collective bargaining agreements and SMEP plan terms do not prevent contributions in respect of workers in these situations. Such contributions do not benefit the member because they can no longer accrue any corresponding pension benefits under the plan.

To bring the SMEP rules in line with the pension tax provisions that apply to other defined benefit RPPs, Budget 2019 proposes to amend the tax rules to prohibit contributions to a SMEP in respect of a member after the end of the year the member attains 71 years of age and to a defined benefit provision of a SMEP if the member is receiving a pension from the plan (except under a qualifying phased retirement program). The proposed changes will ensure that employers do not make pension contributions on behalf of older SMEP members in these situations from which they cannot benefit.

To provide SMEP sponsors and employers with a flexible transition period, this measure will apply in respect of SMEP contributions made pursuant to collective bargaining agreements entered into after 2019, in relation to contributions made after the date the agreement is entered into.

Pensionable Service Under an Individual Pension Plan

An individual pension plan (IPP) is a defined benefit registered pension plan that has fewer than four members, at least one of whom (e.g., a controlling shareholder) is related to an employer that participates in the plan. IPPs provide businesses with a mechanism to provide lifetime retirement benefits to owner-managers in respect of their employment.

When an individual terminates membership in a defined benefit registered pension plan, the income tax rules allow for a tax-deferred transfer of all or a portion of the commuted value of the member's accrued benefits in one of two ways:

- a transfer of the full commuted value to another defined benefit plan sponsored by another employer; or
- subject to a prescribed transfer limit (normally about 50 per cent of the member's commuted value), a transfer of a portion of the commuted value to the member's registered retirement savings plan or similar registered plan.

Planning is being undertaken that seeks to circumvent these prescribed transfer limits. This planning is effected by establishing an IPP sponsored by a newly incorporated private corporation controlled by an individual who has terminated employment with their former employer. The individual then transfers the commuted value of their pension entitlement from the former employer's defined benefit plan to the new IPP. This planning seeks to obtain a 100-per-cent transfer of assets to the new IPP instead of the restricted transfer of assets to the individual's registered retirement savings plan.

To prevent this inappropriate planning, Budget 2019 proposes to prohibit IPPs from providing retirement benefits in respect of past years of employment that were pensionable service under a defined benefit plan of an employer other than the IPP's participating employer (or its predecessor employer). Any assets transferred from a former employer's defined benefit plan to an IPP that relate to benefits provided in respect of prohibited service will be considered to be a non-qualifying transfer that is required to be included in the income of the member for income tax purposes.

This measure applies to pensionable service credited under an IPP on or after Budget Day.

Mutual Funds: Allocation to Redeemers Methodology

Mutual fund trusts are commonly used vehicles for the pooling and investment of funds. Although a mutual fund trust is considered to be a separate taxpayer, its conduit nature is recognized in the *Income Tax Act*. In particular, if a mutual fund trust's capital gains or ordinary income for the year are allocated to its unitholders, the mutual fund trust will be entitled to a deduction for such allocated amounts in computing its income.

When a mutual fund trust disposes of investments to fund a redemption of its units, any accrued gain on the investments is realized by the trust and is subject to tax, and may be taxed again in the hands of the unitholder who disposes of units at a redemption price that reflects this accrued gain. Mutual fund trusts have access to a capital gains refund mechanism under the *Income Tax Act*, which is intended to address this potential for "double taxation". This mechanism provides a refund to the mutual fund trust in respect of tax that the mutual fund trust has paid on its capital gains attributable to redeeming unitholders. However, because this mechanism is a formulaic approximation, it does not always fully relieve "double taxation".

The “allocation to redeemers methodology” was developed to more effectively match the capital gains realized by the mutual fund trust on its investments with the capital gains realized by the redeeming unitholders on their units. This methodology, which is used by many mutual fund trusts, allows a mutual fund trust to allocate capital gains realized by it to a redeeming unitholder and claim a corresponding deduction. The allocated capital gains are included in computing the redeeming unitholder’s income but its redemption proceeds are reduced by that amount.

Deferral

Certain mutual fund trusts have been using the allocation to redeemers methodology to allocate capital gains to redeeming unitholders in excess of the capital gains that would otherwise have been realized by these unitholders on the redemption of their units. This results in the following consequences:

- the mutual fund trust is allowed a deduction in respect of the full allocated amount;
- the redeeming unitholder is taxed on the same overall amount of capital gain as if no allocation were made to it; in particular, because the allocation reduces the unitholder’s redemption proceeds,
 - a portion of the allocation effectively eliminates the capital gain that would have been realized by that unitholder on the redemption and so the unitholder is taxed only on that allocated portion, and
 - the excess portion of the allocation effectively results in a capital loss on the redemption for that unitholder that completely offsets the portion of the allocation included in the unitholder’s income; and
- because the excess portion does not need to be allocated by the mutual fund trust to the remaining holders, it is reflected as an unrealized gain in the units held by them. This unrealized capital gain is taxed only when the remaining unitholders redeem their units.

From a policy perspective, any amount of capital gains realized by a mutual fund trust in a taxation year in excess of the capital gains realized by redeeming unitholders on their units in that year should be taxed in that taxation year either at the mutual fund trust level or, more typically, in the hands of the remaining unitholders. Therefore, this planning results in an inappropriate deferral of the taxation of the excess amount for these remaining unitholders.

Budget 2019 proposes to introduce a new rule that would deny a mutual fund trust a deduction in respect of the portion of an allocation made to a unitholder on a redemption of a unit of the mutual fund trust that is greater than the capital gain that would otherwise have been realized by the unitholder on the redemption, if the following conditions are met:

- the allocated amount is a capital gain; and
- the unitholder’s redemption proceeds are reduced by the allocation.

This measure will apply to taxation years of mutual fund trusts that begin on or after Budget Day.

Character Conversion

Certain mutual fund trusts have also been using the allocation to redeemers methodology in a way that allows the mutual fund trust to convert the returns on an investment that would have the character of ordinary income to capital gains for their remaining unitholders. This character conversion planning is possible when the redeeming unitholders hold their units on income account but other unitholders hold their units on capital account.

Although this misuse of the allocation to redeemers methodology (as well as the planning described under "Deferral") can be challenged by the Government based on existing rules in the *Income Tax Act*, these challenges could be both time-consuming and costly. As a result, the Government is proposing a specific legislative measure.

Budget 2019 proposes to introduce a new rule that will deny a mutual fund trust a deduction in respect of an allocation made to a unitholder on a redemption, if

- the allocated amount is ordinary income; and
- the unitholder's redemption proceeds are reduced by the allocation.

This measure will apply to taxation years of mutual fund trusts that begin on or after Budget Day.

Carrying on Business in a Tax-Free Savings Account

The tax-free savings account (TFSA) is a registered account that allows Canadians to earn tax-free investment income on a wide range of investments. However, a TFSA is liable to pay tax under Part I of the *Income Tax Act* (at the top personal tax rate) on income from a business carried on by the TFSA or from non-qualified investments.

Under the current rules, the trustee of a TFSA (i.e., a financial institution) is jointly and severally liable with the TFSA for Part I tax while the holder of the TFSA is not. In cases where there are insufficient assets within the TFSA to pay any resulting tax liability (e.g., the TFSA holder withdraws the assets or transfers them to a different financial institution), the TFSA's trustee is liable to pay the tax owing. In contrast, a holder of a TFSA is liable for any tax imposed under Part XI.01 of the *Income Tax Act*, which applies in respect of the acquisition of a non-qualified or a prohibited investment by the TFSA.

To recognize that a TFSA's holder is typically in the best position to know whether the activities of the TFSA constitute carrying on a business, Budget 2019 proposes that the joint and several liability for tax owing on income from carrying on a business in a TFSA be extended to the TFSA holder. The joint and several liability of a trustee of a TFSA at any time in respect of business income earned by a TFSA will be limited to the property held in the TFSA at that time plus the amount of all distributions of property from the TFSA on or after the date that the notice of assessment is sent.

This measure will apply to the 2019 and subsequent taxation years.

Electronic Delivery of Requirements for Information

The Canada Revenue Agency (CRA) may issue a requirement for information to oblige a person to provide information or documents for the purposes of the administration and enforcement of various Acts. In many cases, the CRA must send requirements for information by registered mail, certified mail or personal service and is not permitted to send those requirements electronically.

Banks and credit unions are often sent requirements in respect of third-party financial information. These requirements for information are generally sent by registered mail, which is costly and impractical for both the CRA and the banks and credit unions receiving the requirements.

To improve the efficiency of the requirement-for-information process and to reduce administration and compliance costs, Budget 2019 proposes to allow the CRA to send requirements for information electronically to banks and credit unions by amending the following tax statutes: the *Income Tax Act*, the *Excise Tax Act*, the *Excise Act, 2001* and the *Air Travellers Security Charge Act*. Budget 2019 further proposes similar amendments to Part 1 of the *Greenhouse Gas Pollution Pricing Act*, which is also administered by the CRA.

The CRA will be allowed to send requirements for information electronically to a bank or credit union only if the bank or credit union notifies the CRA that it consents to this method of service. This measure will change only the means by which the CRA can issue requirements for information and it will not expand the scope of information that can be requested by the CRA.

This measure will apply as of January 1, 2020.

Business Income Tax Measures

Support for Canadian Journalism

Budget 2019 proposes to introduce three new tax measures to support Canadian journalism:

- allowing journalism organizations to register as qualified donees;
- a refundable labour tax credit for qualifying journalism organizations; and
- a non-refundable tax credit for subscriptions to Canadian digital news.

These measures are intended to provide support to Canadian journalism organizations producing original news.

An independent panel will be established to recommend eligibility criteria for the purposes of these measures. Once the panel has made its recommendations, eligibility of organizations will be evaluated and a recognition process will be put in place.

Qualified Canadian Journalism Organizations

Qualified Canadian Journalism Organization (QCJO) status is a necessary condition for each of the three measures. In order to be a QCJO, an organization will be required to be recognized as meeting criteria developed by the independent panel. This recognition will be made by an administrative body that will be established for this purpose.

A QCJO will be required to be organized as a corporation, partnership or trust. It will need to operate in Canada and meet additional conditions, depending on how it is organized. To qualify as a QCJO, a corporation will be required to be incorporated and resident in Canada. In addition, its chairperson (or other presiding officer) and at least 75 per cent of its directors must be Canadian citizens. In general, in order for a partnership or trust to qualify, such corporations, along with Canadian citizens, must own at least 75 per cent of the interests in it.

In addition, an organization will be required to meet the following conditions to be a QCJO:

- it is primarily engaged in the production of original news content and in particular, the content
 - must be primarily focused on matters of general interest and reports of current events, including coverage of democratic institutions and processes, and
 - must not be primarily focused on a particular topic such as industry-specific news, sports, recreation, arts, lifestyle or entertainment;
- it regularly employs two or more journalists in the production of its content who deal at arm's length with the organization;
- it must not be significantly engaged in the production of content
 - to promote the interests, or report on the activities, of an organization, an association or their members,
 - for a government, Crown corporation or government agency, or
 - to promote goods or services; and

- it must not be a Crown corporation, municipal corporation or government agency.

Qualified Donee Status

The Government of Canada provides support to certain categories of organizations, including charities, that are referred to in the *Income Tax Act* as “qualified donees” and that operate for some broad public purpose. Canadians may claim the charitable donation tax credit (for individuals) or deduction for donations (corporations) for donations to qualified donees. Qualified donees can also receive gifts from Canadian registered charities.

Budget 2019 proposes to add registered journalism organizations as a new category of tax-exempt qualified donee. In order to qualify for registration, a QCJO will be required to apply to the Canada Revenue Agency (CRA) to be registered as a qualified donee and meet certain additional conditions, as described below.

Registered journalism organizations will be required to be corporations or trusts and to have purposes that exclusively relate to journalism. Any business activities carried on by these organizations will be required to be related to their purposes. For example, the sale of news content and advertising would be considered activities related to journalism. These organizations will not be permitted to distribute their profits, if any, or allow their income to be available for the personal benefit of certain individuals connected with the organization.

To ensure that registered journalism organizations are not used to promote the views or objectives of any particular person or related group of persons, a registered journalism organization:

- will be required to have a board of directors or trustees, each of whom deals at arm’s length with each other;
- must not be factually controlled by a person (or a group of related persons); and
- must generally not, in any given year, receive gifts that represent more than 20 per cent of its total revenues, including donations, from any one source (excluding bequests and one-time gifts made on the initial establishment of the particular registered journalism organization).

To provide transparency, the names of all registered journalism organizations will be listed on the website of the Government of Canada. Registered journalism organizations will be required to file an annual return with the CRA containing information on their activities. In addition, registered journalism organizations will be required to disclose, in their information returns, the name(s) of any donors that make donations of over \$5,000 and the amount donated. Similar to registered charities and registered Canadian amateur athletic associations, these information returns will be made public along with certain additional information.

Qualified donees are required to issue official donation receipts in accordance with the *Income Tax Act*, to maintain proper books and records and to provide access to them upon request by the CRA. As qualified donees, these rules will apply to registered journalism organizations, including the regulatory sanctions for failing to follow these rules (i.e., a monetary penalty, the suspension of its qualified donee status and the revocation of registration).

Where a registered journalism organization no longer meets the requirements for registration as a qualified donee (including because it fails to qualify as a QCJO), the CRA will have the authority to revoke its registration. Where a journalism organization's registration is revoked, it will no longer be exempt from income tax as a registered journalism organization and will no longer be entitled to issue charitable donation receipts.

Where the CRA proposes to revoke the registration of a registered journalism organization, it will be able to file an objection with the Appeals Branch of the CRA. If the organization disagrees with the decision of the Appeals Branch, it will be entitled to appeal the decision to the Federal Court of Appeal.

This measure will apply as of January 1, 2020.

Refundable Labour Tax Credit

Budget 2019 proposes to introduce a 25-per-cent refundable tax credit on salary or wages paid to eligible newsroom employees of qualifying QCJOs. This will be subject to a cap on labour costs of \$55,000 per eligible newsroom employee per year, which will provide a maximum tax credit in respect of eligible labour costs per individual per year of \$13,750. To qualify for this credit, a QCJO must be a corporation, partnership or trust primarily engaged in the production of original written news content. A QCJO carrying on a broadcasting undertaking (as defined in the *Broadcasting Act*) will not qualify for this credit. A QCJO will also not qualify for this credit in a taxation year if it receives funding from the Aid to Publishers component of the Canada Periodical Fund in that taxation year.

A QCJO that is a corporation will be required to meet the following additional requirements in order to qualify:

- if it is a public corporation, it must be listed on a stock exchange in Canada and not be controlled by non-Canadian citizens; and
- if it is a private corporation, it must be at least 75-per-cent owned by Canadian citizens or by public corporations described above.

As noted above, an independent panel will be established to consider eligibility criteria for purposes of this measure. Initially, an eligible newsroom employee will generally be an employee of a QCJO who works for a minimum of 26 hours per week, on average, and is employed by the QCJO (or is expected to be employed) for at least 40 consecutive weeks. In addition, an eligible newsroom employee will be required to spend at least 75 per cent of their time engaged in the production of news content, including by researching, collecting information, verifying facts, photographing, writing, editing, designing and otherwise preparing content. These rules will be amended if necessary, pending the work completed by the independent panel.

Eligible expenses will include salary or wages paid to eligible newsroom employees in respect of a taxation year and will be reduced by the amount of any government or other assistance received by the QCJO in the taxation year. In addition, salary or wages will be eligible expenses of an organization only if they are in respect of a period throughout which it is a QCJO.

A registered journalism organization, which will be exempt from income tax, may also be entitled to this refundable tax credit in respect of its eligible expenses.

This measure will apply to salary or wages earned in respect of a period on or after January 1, 2019. The administrative body will be able to recognize organizations as of that date, in order to ensure the credit is available as intended.

Personal Income Tax Credit for Digital Subscriptions

Budget 2019 proposes a temporary, non-refundable 15-per-cent tax credit on amounts paid by individuals for eligible digital news subscriptions. This will allow individuals to claim up to \$500 in costs paid towards eligible digital subscriptions in a taxation year, for a maximum tax credit of \$75 annually. In the case of combined digital and newsprint subscriptions, individuals will be limited to claiming the cost of a stand-alone digital subscription.

Eligible digital subscriptions are those that entitle a taxpayer to access content provided in a digital form by a QCJO that is primarily engaged in the production of written content. A subscription with a QCJO carrying on a broadcasting undertaking (as defined in the *Broadcasting Act*) will not qualify for this credit.

Amounts paid to an organization will be eligible only if, at the time they are paid, the organization is a QCJO. If an organization ceases to qualify as a QCJO, that will not cause amounts paid by individuals for subscriptions prior to the loss of QCJO status to cease to qualify for the credit.

This credit will be available in respect of eligible amounts paid after 2019 and before 2025.

Business Investment in Zero-Emission Vehicles

The capital cost allowance (CCA) system determines the deductions that a business may claim each year for income tax purposes in respect of the capital cost of its depreciable property. With some exceptions, depreciable property is divided into CCA classes and a CCA rate for each class of property is prescribed in the *Income Tax Regulations*.

Prior to November 21, 2018, the CCA allowed in the first year that a property was available for use was generally limited to half the amount that would otherwise be available. On November 21, 2018, the Government announced a temporary enhanced first-year allowance, referred to as the Accelerated Investment Incentive, equal to up to three times the previously applicable first-year allowance and a temporary 100-per-cent deduction for certain classes.

Motor vehicles are generally included in Class 10, Class 10.1 or Class 16 and are currently subject to the following effective CCA rates.

Table 2

Effective CCA Rates for Main CCA Classes Containing Motor Vehicles

	CCA Rate	Effective First-Year CCA	
		Prior to November 21, 2018	Accelerated Investment Incentive
Class 10			
• includes most motor vehicles not included in any other class	30%	15%	45%
Class 10.1			
• includes passenger vehicles that cost more than \$30,000 (before sales taxes)	30%	15%	45%
• the maximum capital cost that can be added to the class in respect of each such vehicle is limited to \$30,000 plus sales taxes on that amount			
Class 16			
• includes taxi cabs, vehicles acquired for the purpose of short-term renting or leasing, and heavy trucks and tractors designed for hauling freight	40%	20%	60%

Budget 2019 proposes to provide a temporary enhanced first-year CCA rate of 100 per cent in respect of eligible zero-emission vehicles. Two new CCA classes will be created: Class 54 for zero-emission vehicles that would otherwise be included in Class 10 or 10.1; and Class 55 for zero-emission vehicles that would otherwise be included in Class 16. In the case of Class 54, there will be a limit of \$55,000 (plus sales taxes) on the amount of CCA deductible in respect of each zero-emission passenger vehicle. This new \$55,000 limit will be reviewed annually to ensure that it remains appropriate.

To be eligible for this first-year enhanced allowance, a vehicle must:

- be a motor vehicle as defined in the *Income Tax Act* (i.e., an automotive vehicle for use on streets and highways, but not including a trolley bus or vehicle operated exclusively on rail);
- otherwise be included in Class 10, 10.1 or 16;
- be fully electric, a plug-in hybrid with a battery capacity of at least 15 kWh or fully powered by hydrogen; and
- not have been used, or acquired for use, for any purpose before it is acquired by the taxpayer.

Vehicles in respect of which assistance is paid under the new federal purchase incentive announced in Budget 2019 will be ineligible.

This proposal will also have implications for the Goods and Services Tax/Harmonized Sales Tax (GST/HST). Under the GST/HST, businesses can generally claim input tax credits to recover the GST/HST they pay to acquire inputs for use in their commercial activities. The general policy under the GST/HST is to treat business expenses for passenger vehicles in a manner similar to the treatment under the income tax system.

Accordingly, Budget 2019 proposes to amend the GST/HST to ensure that the treatment of expenses incurred in respect of zero-emission passenger vehicles under the GST/HST parallels the proposed income tax treatment of these vehicles. This will generally result in an increase in the amount of GST/HST that businesses can recover in respect of zero-emission passenger vehicles, subject to limits similar to those under the income tax system.

Application and Phase-Out

This measure will apply to eligible zero-emission vehicles acquired on or after Budget Day and that become available for use before 2028, subject to a phase-out for vehicles that become available for use after 2023 (as shown in Table 3). A taxpayer will be able to claim the enhanced allowance in respect of an eligible zero-emission vehicle only for the taxation year in which the vehicle first becomes available for use.

Table 3
Rates for the First-Year Enhanced Allowance

	First-Year Enhanced Allowance
March 19, 2019 - 2023	100%
2024 - 2025	75%
2026 - 2027	55%
2028 onward	-

CCA will be deductible on any remaining balances in the new classes on a declining-balance basis at a rate of 30 per cent for Class 54 and 40 per cent for Class 55.

Additional Rules

Under the short-taxation-year rule, the amount of CCA that can be claimed in a taxation year must generally be prorated where the taxation year is less than 12 months. This rule will apply to the enhanced allowance for zero-emission vehicles.

As a general rule, the proceeds from the disposition of a depreciable property in a particular CCA class must be deducted from the undepreciated capital cost of property of that class. If at the end of a taxation year the deduction of the proceeds of disposition from the undepreciated capital cost results in a negative balance for the class, this negative amount must generally be included in the taxpayer's income for the year. Conversely, if at the end of a taxation year a taxpayer has no more property in a class but has a positive balance for the class, this positive amount may generally be deducted from the taxpayer's income for the year.

A special rule will apply to adjust the proceeds of disposition to be deducted from the undepreciated capital cost of the property on the disposition of a zero-emission vehicle that is subject to the capital cost limit of \$55,000. Specifically, the proceeds of disposition will be adjusted based on a factor equal to the capital cost limit of \$55,000 as a proportion of the actual cost of the vehicle (see Table 4 for an example).

Table 4

Example of Adjusted Proceeds of Disposition to be Deducted from the Undepreciated Capital Cost

	First-Year Enhanced Allowance
Acquisition cost (before HST) ¹	\$60,000
First-Year CCA	\$55,000*100%
	= \$55,000
Undepreciated capital cost	\$55,000-\$55,000
	= \$0
Proceeds of disposition	\$30,000
Part of proceeds of disposition to be deducted from the undepreciated capital cost	\$30,000*(\$55,000/\$60,000)
	= \$27,500

¹ Assumes HST province and that all HST is recovered through input tax credits.

An election will be available to forgo Class 54 or 55 treatment and instead include a zero-emission vehicle in Class 10, 10.1 or 16, as the case may be.

The *Income Tax Act* and the *Income Tax Regulations* include a series of rules designed to protect the integrity of the CCA regime and the tax system more broadly (e.g., the leasing property rules). In certain circumstances, these rules can restrict a CCA deduction, or a loss in respect of such a deduction, that would otherwise be available. The integrity rules that currently apply to Classes 10, 10.1 and 16 will apply to Classes 54 and 55.

This proposal is expected to have positive environmental effects, as it is expected to encourage the adoption of technologies that will reduce greenhouse gas (GHG) emissions. A reduction in GHG emissions would contribute to the Federal Sustainable Development Strategy target of reducing Canada's total GHG emissions by 30 per cent, relative to 2005 emissions levels, by 2030.

Small Business Deduction – Farming and Fishing

In general terms, income from an active business carried on in Canada by a Canadian-controlled private corporation (CCPC) is eligible for a reduced rate of taxation under the small business deduction rules in the *Income Tax Act*. As of 2019, these rules allow CCPCs to reduce their federal corporate income tax rate from 15 per cent to 9 per cent on such income, up to \$500,000. The *Income Tax Act* contains various rules that are intended to prevent the inappropriate multiplication of this \$500,000 limit.

One such rule, enacted in 2016, has the effect of disqualifying “specified corporate income” of a CCPC from eligibility for the small business deduction. This income includes certain amounts earned by a CCPC from sales to a private corporation in which the CCPC, or certain specified persons, holds a direct or indirect interest. However, certain income of a CCPC’s farming or fishing business that arises from sales to a farming or fishing cooperative corporation is excluded from specified corporate income and, as a result, such income remains eligible for the small business deduction.

To provide greater flexibility to farming and fishing businesses, Budget 2019 proposes to eliminate the requirement that sales be to a farming or fishing cooperative corporation in order to be excluded from specified corporate income. As such, this exclusion will apply to the income of a CCPC from sales of the farming products or fishing catches of its farming or fishing business to any arm’s length purchaser corporation. However, consistent with the existing rules, amounts allocated to a CCPC as patronage payments from a purchaser corporation will not qualify for this exclusion.

This measure will apply to taxation years that begin after March 21, 2016.

Scientific Research and Experimental Development Program

Under the Scientific Research and Experimental Development (SR&ED) tax incentive program, qualifying expenditures are fully deductible in the year they are incurred. In addition, these expenditures are eligible for an investment tax credit. The rate and level of refundability of the credit vary depending on the characteristics of the firm, including its legal status and its size.

- For all corporations other than Canadian-controlled private corporations (CCPCs) and for unincorporated businesses, a 15-per-cent non-refundable tax credit is available on all qualifying SR&ED expenditures.
- For CCPCs, a fully refundable enhanced tax credit at a rate of 35 per cent is available on up to \$3 million of qualifying SR&ED expenditures annually. This expenditure limit for a taxation year is gradually phased out based on two factors, which apply on the basis of an associated group.
 - The expenditure limit is reduced where taxable income for the previous taxation year is between \$500,000 and \$800,000.
 - The expenditure limit is also reduced where taxable capital employed in Canada for the previous taxation year is between \$10 million and \$50 million.
- Qualifying expenditures in excess of a CCPC’s expenditure limit are eligible for the 15-per-cent tax credit. Unused SR&ED credits earned at this rate may be partially refundable depending on the CCPC’s taxable income and taxable capital.

Table 5 presents the amount of SR&ED credits on \$3 million of SR&ED expenditures at specific levels of taxable capital and taxable income under the current rules. In particular, it illustrates how these credits can be affected by a relatively small change in the amount of taxable income for firms within the phase-out range.

For example, a CCPC that spends \$3 million on qualifying SR&ED expenditures in a taxation year, and that has \$500,000 of taxable income and \$10 million of taxable capital in the previous taxation year, is eligible for the 35-per-cent refundable SR&ED credit on all of its expenditures, resulting in a fully refundable credit of \$1.05 million. If the corporation's taxable income for the previous taxation year were \$600,000 instead, the total SR&ED tax credits earned would have been \$850,000 (of which \$700,000 would have been refundable). For this CCPC, a \$100,000 increase in taxable income would have resulted in a \$200,000 reduction in SR&ED tax credits.

Table 5
Current Tax Credits on \$3 Million SR&ED Expenditures, CCPCs
 (refundable portion in parentheses) (\$ 000s)

Prior-Year Taxable Capital	Prior-Year Taxable Income			
	500	600	700	800
10,000	1,050 (1,050)	850 (700)	650 (350)	450 (0)
20,000	900 (788)	750 (525)	600 (263)	450 (0)
30,000	750 (525)	650 (350)	550 (175)	450 (0)
40,000	600 (263)	550 (175)	500 (88)	450 (0)
50,000	450 (0)	450 (0)	450 (0)	450 (0)

Budget 2019 proposes to repeal the use of taxable income as a factor in determining a CCPC's annual expenditure limit for the purpose of the enhanced SR&ED tax credit. As a result, small CCPCs with taxable capital of up to \$10 million will benefit from unreduced access to the enhanced refundable SR&ED credit regardless of their taxable income. As a CCPC's taxable capital begins to exceed \$10 million, this access will gradually be reduced as shown in the highlighted column in Table 5.

This change will provide a more predictable phase-out of the enhanced SR&ED credit rate, which will more effectively support growing small and medium-sized firms as they scale up.

This measure will apply to taxation years that end on or after Budget Day.

Canadian-Belgian Co-productions – Canadian Film or Video Production Tax Credit

The Canadian film or video production tax credit provides a 25-per-cent refundable tax credit to qualified corporations in respect of qualified labour expenditures of an eligible Canadian film or video production. The maximum amount of Canadian labour costs qualifying for the credit is 60 per cent of the total cost of a production, net of any assistance, with the result that the credit can cover up to 15 per cent of total production costs.

Audiovisual co-production treaties and similar instruments allow productions that are the joint projects of producers from two different countries to qualify in both countries as a treaty co-production, for purposes including the Canadian film or video production tax credit. On March 12, 2018, the Government of Canada and the Belgian linguistic communities signed *The Memorandum of Understanding between the Government of Canada and the Respective Governments of the Flemish, French and German-speaking Communities of the Kingdom of Belgium concerning Audiovisual Coproduction*, modernizing the 1984 film treaty between Canada and Belgium.

Budget 2019 proposes to add this Memorandum of Understanding to the list of instruments under which a film or video production may be produced in order to qualify as a treaty co-production. This measure will allow joint projects of producers from Canada and Belgium to qualify for the Canadian film or video production tax credit.

This measure will apply as of March 12, 2018.

Character Conversion Transactions

In the past, certain taxpayers entered into financial arrangements (character conversion transactions) that sought to reduce tax by converting, with the use of derivative contracts, the returns on an investment that would have the character of ordinary income to capital gains, only 50 per cent of which are included in income.

One type of character conversion transaction involved a taxpayer seeking to gain economic exposure to a portfolio of investments that produces fully taxable ordinary income. The taxpayer would enter into an agreement with a counterparty to acquire Canadian securities at a specified future date. The value of the Canadian securities to be delivered to the taxpayer on the settlement of the forward purchase agreement was based on the performance of the reference portfolio. On the settlement of the forward purchase agreement, the taxpayer acquired the Canadian securities from the counterparty and then immediately resold them for cash. Because the taxpayer made an election to treat its Canadian securities as capital property, it would take the position that any gain realized from their disposition would result in a capital gain.

In response, rules were introduced in 2013 that treat any gain arising from a "derivative forward agreement" as ordinary income rather than as a capital gain. For the purposes of these rules, a derivative forward agreement is defined to include any agreement to purchase a capital property where:

- the term of the agreement (or series of agreements) exceeds 180 days; and
- the difference between the fair market value of the property delivered on settlement of the agreement and the amount paid for the property is derivative in nature (i.e., it is attributable, in whole or in part, to an underlying interest other than certain excluded interests).

This definition also includes agreements to sell a capital property that meet similar conditions.

One important excluded interest is where the economic return from a purchase or sale agreement is based on the economic performance of the actual property being purchased or sold. This exception is intended to exclude certain commercial transactions (e.g., merger and acquisition transactions) from the scope of the derivative forward agreement rules.

An alternative character conversion transaction has been developed that attempts to misuse this commercial transaction exception as it applies to purchase agreements. Under this alternative transaction:

- A first mutual fund (Investor Fund) enters into a forward purchase agreement with a counterparty pursuant to which it agrees to acquire units of a second mutual fund (Reference Fund) at a specified future date, for a purchase price equal to the value of such units at the date the forward purchase agreement is entered into. Reference Fund holds a portfolio of investments that produces fully taxable ordinary income.
- On settlement of the forward purchase agreement, Investor Fund acquires the units of Reference Fund and treats the cost of those units as being equal to the purchase price under the forward purchase agreement.
- Investor Fund then immediately redeems or sells the units of Reference Fund and realizes a gain, which Investor Fund treats as a capital gain, by virtue of making an election to treat its Canadian securities (such as the Reference Fund units) as capital property.

Investor Fund does not treat the forward purchase agreement as giving rise to a "derivative forward agreement" on the basis that the agreement falls within the commercial transaction exception to the definition because Investor Fund's economic return under the forward purchase agreement is based on the economic performance of the acquired units of Reference Fund over the term of the agreement.

In the end, the alternative transaction provides Investor Fund with an economic return that is essentially based on the performance of the portfolio of investments held by Reference Fund which, if the portfolio of investments was held directly by Investor Fund, would include fully taxable ordinary income. However, the transaction is structured in such a way that the entire return is taxed as a capital gain.

Although this alternative transaction can be challenged by the Government based on existing rules in the *Income Tax Act*, these challenges could be both time-consuming and costly. As a result, the Government is proposing a specific legislative measure.

Budget 2019 proposes an amendment that introduces an additional qualification for the commercial transaction exception in the definition "derivative forward agreement" as the exception applies to purchase agreements. In general terms, this amendment will provide that the commercial transaction exception is unavailable if it can reasonably be considered that one of the main purposes of the series of transactions, of which an agreement to purchase a security in the future (or an equivalent agreement) is part, is for a taxpayer to convert into a capital gain an amount paid on the security, by the issuer of the security, during the period that the security is subject to the agreement.

This measure will apply to transactions entered into on or after Budget Day. It will also apply after December 2019 to transactions that were entered into before Budget Day including those that extended or renewed the terms of the agreement on or after Budget Day. This grandfathering will incorporate the same growth limits used under the transitional relief provided under the derivative forward agreement rules introduced in 2013 to ensure that no new money flows into grandfathered transactions on or after Budget Day.

International Tax Measures

Transfer Pricing Measures

In the tax context, “transfer pricing” refers to the prices, and other terms and conditions, used in transactions occurring across international borders by persons who are not dealing at arm’s length. These transactions may involve the intra-group purchase or sale of goods, services or intangibles. They may also involve the provision of intra-group financing or loan guarantees. Because these transactions occur across international borders, it is necessary to address the tax issues related to transfer pricing in a broad international context. Member countries of the Organisation for Economic Co-operation and Development, including Canada, have agreed to adopt a standard against which a multinational enterprise’s transfer pricing is measured, referred to as the “arm’s length principle”. The application of this principle protects the tax base against the shifting of income that can potentially result from the discretionary determination of transfer prices by a multinational enterprise.

In Canada, the arm’s length principle is reflected in the transfer pricing rules contained in Part XVI.1 of the *Income Tax Act*. Under the transfer pricing rules, where the terms or conditions of a transaction, or series of transactions, between non-arm’s length parties do not reflect arm’s length terms and conditions, the Canada Revenue Agency may adjust, for the purpose of computing the parties’ tax liabilities under the *Income Tax Act*, the quantum or nature of amounts related to the transaction or series between the participants to reflect arm’s length terms and conditions.

Budget 2019 proposes two measures concerning the relationship between the transfer pricing rules in Part XVI.1 and other provisions of the *Income Tax Act*.

Order of Application of the Transfer Pricing Rules

As noted, the transfer pricing rules can apply to determine the quantum or nature of amounts relevant to the computation of tax. Other provisions of the *Income Tax Act* can apply to similar effect. Where both the transfer pricing rules and another provision of the *Income Tax Act* may apply to the same amount that is relevant to the computation of tax, questions have arisen as to whether adjustments, if any, under the transfer pricing rules are made in priority to the application of the other provision. This may have various implications, including with respect to the calculation of penalties imposed under Part XVI.1.

To provide greater certainty in the application of the income tax rules, Budget 2019 proposes to amend the *Income Tax Act* to clarify that the transfer pricing rules in Part XVI.1 apply in priority to the application of the provisions in other parts of the *Income Tax Act*, including the provisions relating to income computation in Part I. The current exceptions to the application of the transfer pricing rules that pertain to situations in which a Canadian resident corporation has an amount owing from, or extends a guarantee in respect of an amount owing by, a controlled foreign affiliate will continue to apply.

This measure will apply to taxation years that begin on or after Budget Day.

Applicable Reassessment Period

The transfer pricing rules include an expanded definition of "transaction", which includes an arrangement or event. This allows the transfer pricing rules to apply to the broad range of situations that may arise in the context of a multinational enterprise's operations.

After a taxpayer files an income tax return for a taxation year, the Canada Revenue Agency is required to perform an initial examination of the return and to assess tax payable, if any, with all due dispatch. The Canada Revenue Agency then normally has a fixed period, generally three or four years, after its initial examination beyond which the Canada Revenue Agency is precluded from reassessing the taxpayer.

An extended three-year reassessment period exists in respect of a reassessment made as a consequence of a transaction involving a taxpayer and a non-resident with whom the taxpayer does not deal at arm's length. This is intended to apply in the transfer pricing context. However, the expanded definition of "transaction" used in the transfer pricing rules does not apply for the purposes of the rule establishing this extended reassessment period.

Budget 2019 proposes to amend the *Income Tax Act* to provide that the definition "transaction" used in the transfer pricing rules also be used for the purposes of the extended reassessment period relating to transactions involving a taxpayer and a non-resident with whom the taxpayer does not deal at arm's length.

This measure will apply to taxation years for which the normal reassessment period ends on or after Budget Day.

Foreign Affiliate Dumping

The foreign affiliate dumping rules in the *Income Tax Act* are intended to counter erosion of the tax base resulting from transactions in which a corporation resident in Canada (CRIC) that is controlled by a non-resident buys or otherwise invests in a foreign affiliate using borrowed, or surplus funds. One example of a foreign affiliate dumping transaction involves a CRIC using retained earnings to acquire shares of a foreign affiliate from its foreign parent corporation. Absent the foreign affiliate dumping rules, this transaction would provide a mechanism for the foreign parent corporation to, in effect, extract surplus from the CRIC free of dividend withholding tax.

In general terms, and subject to certain exceptions, the foreign affiliate dumping rules currently apply where a CRIC makes an "investment" (as defined in the rules) in a foreign affiliate of the CRIC and the CRIC is controlled by a non-resident corporation. The rules can also apply where a CRIC makes an investment in a foreign affiliate of a corporation that does not deal at arm's length with the CRIC, if the CRIC or the non-arm's length corporation is controlled by a non-resident corporation. When they apply, the foreign affiliate dumping rules generally result in:

- a suppression of paid-up capital otherwise created because of the investment or a reduction in the paid-up capital of one or more relevant classes of shares of the CRIC (or, in certain cases, a related corporation resident in Canada); and

- a deemed dividend paid by the CRIC to the controlling non-resident (or, where a valid election is made, by another qualifying corporation resident in Canada or to a different non-resident corporation). The amount of the deemed dividend is equal to the amount by which the investment exceeds the amount of the paid-up capital suppressed or reduced. This deemed dividend is subject to non-resident withholding tax, which may be reduced by an applicable tax treaty.

While the foreign affiliate dumping rules currently apply only in respect of CRICs that are controlled by a non-resident corporation (or by a related group of non-resident corporations), similar policy concerns arise where a CRIC that is controlled by a non-resident individual or trust makes an investment in a foreign affiliate.

To better achieve the policy objectives of the foreign affiliate dumping rules, Budget 2019 proposes to extend the application of these rules to CRICs that are controlled by

- a non-resident individual,
- a non-resident trust, or
- a group of persons that do not deal with each other at arm's length, comprising any combination of non-resident corporations, non-resident individuals and non-resident trusts.

Related persons are considered not to deal with each other at arm's length for income tax purposes. To ensure that a non-resident trust will be considered to be related to another non-resident person in circumstances similar to where a non-resident corporation would be so related, the proposals include an extended meaning of "related" that applies for the purpose of determining whether a non-resident trust does not deal at arm's length with another non-resident person.

This measure will apply to transactions and events that occur on or after Budget Day.

Cross-Border Share Lending Arrangements

Securities lending is a long-established practice that plays an important role in capital markets. Certain securities lending arrangements involve a non-resident lending a share to a Canadian resident, and the Canadian resident agreeing to return an identical share to the non-resident in the future. The Canadian resident typically provides collateral as security for the return of the identical share. Over the term of the arrangement, the Canadian resident is obligated to make payments as compensation for any dividends paid by the issuer of the lent share (dividend compensation payments). Ultimately, the non-resident retains the same economic exposure with respect to the lent share as if it had continued to hold the share.

The *Income Tax Act* contains rules that generally seek to put a lender under a securities lending arrangement in the same tax position as if the securities had not been lent. Within the securities lending arrangement rules, there are special rules that determine the character of any dividend compensation payment made by a Canadian resident to a non-resident under such securities lending arrangements for the purposes of the non-resident withholding tax rules in Part XIII of the *Income Tax Act*.

These characterization rules deem a dividend compensation payment made under a "fully collateralized" securities lending arrangement to be a payment made by the Canadian resident to the non-resident of a dividend payable on the lent share. This deemed dividend is subject to Canadian dividend withholding tax. For the purpose of these rules, a securities lending arrangement is "fully collateralized" if the Canadian resident provides collateral to the non-resident in the form of money or government debt obligations with a value of 95 per cent or more of the lent share. This collateral must be in place throughout the term of the securities lending arrangement, and the Canadian resident must be entitled to the benefits of all or substantially all the income from, and opportunity for gain with respect to, the collateral.

If a securities lending arrangement is not "fully collateralized", the dividend compensation payment is instead deemed to be a payment of interest made by the Canadian resident to the non-resident. Since 2008, interest paid to a non-resident with whom a Canadian resident is dealing at arm's length is generally exempt from Canadian withholding tax, unless the interest is participating debt interest.

Canadian Shares

Certain non-residents have engaged in planning intended to avoid Canadian dividend withholding tax on dividend compensation payments made to them in respect of shares of Canadian resident corporations (Canadian shares). Broadly speaking, this planning is effected using two different methods.

The first method involves entering into securities lending arrangements that are structured to not meet the "fully collateralized" test in the *Income Tax Act*, but that are, in substance, fully collateralized. When a securities lending arrangement is not "fully collateralized", the characterization rules apply to deem a dividend compensation payment to be a payment of interest. In these circumstances, these non-residents take the position that the general withholding tax exemption on interest payments applies to this deemed interest payment.

The second method involves entering into securities loans that are designed to fail the requirements of the "securities lending arrangement" definition in the *Income Tax Act*. If a securities loan does not meet that definition, the characterization rules do not apply. As a result, these non-residents take the position that a dividend compensation payment made under such a securities loan is simply a payment made under a derivative contract and is not subject to Canadian withholding tax.

Depending on the particular facts, these arrangements can be challenged by the Government based on existing rules in the *Income Tax Act*. However, as any such challenge could be both time-consuming and costly, the Government is proposing specific legislative measures to ensure that the appropriate tax consequences apply to these arrangements.

To better reflect the policy objective that the Canadian dividend withholding tax consequences for a non-resident lender under a share loan should generally be the same as if it had continued to hold the lent share, Budget 2019 proposes an amendment to ensure that a dividend compensation payment made under a securities lending arrangement by a Canadian resident to a non-resident in respect of a Canadian share is always treated as a dividend under the characterization rules and, accordingly, always subject to Canadian dividend withholding tax.

Budget 2019 also proposes an amendment to apply the characterization rules not only to a “securities lending arrangement”, as defined under the *Income Tax Act*, but also to a “specified securities lending arrangement”. Budget 2018 introduced the latter definition in the context of a measure intended to prevent taxpayers from realizing artificial losses through the use of equity-based financial arrangements. The definition includes securities loans that are substantially similar to securities lending arrangements.

Finally, Budget 2019 proposes to introduce complementary amendments to ensure that the securities lending arrangement rules cannot be used to obtain other unintended withholding tax benefits. For instance, a rule will be introduced to ensure that the same withholding tax rate under a tax treaty applies to a dividend compensation payment made to a non-resident as to a dividend that would have been paid to that non-resident had it continued to hold the lent Canadian share.

These proposed amendments will apply to compensation payments that are made on or after Budget Day unless the securities loan was in place before Budget Day, in which case the amendments will apply to compensation payments that are made after September 2019.

Foreign Shares

The existing characterization rules may also inappropriately subject dividend compensation payments in respect of lent shares issued by non-resident corporations (foreign shares) to Canadian dividend withholding tax. In particular, if a non-resident lends a foreign share to a Canadian resident under a securities lending arrangement that is “fully collateralized”, the characterization rules deem a dividend compensation payment in respect of the foreign share to be a dividend paid by the Canadian resident, rather than by the non-resident issuer of the share, to the non-resident. Canadian dividend withholding tax would therefore apply on the dividend compensation payment. If the non-resident had continued to hold the lent foreign share, it would not have been subject to Canadian dividend withholding tax on a dividend paid by the non-resident issuer of the share.

To address this issue, Budget 2019 proposes an amendment to broaden an existing exemption from Canadian dividend withholding tax so that it includes any dividend compensation payment made by a Canadian resident to a non-resident under a securities lending arrangement if:

- the securities lending arrangement is “fully collateralized”; and
- the lent security is a foreign share.

This proposed amendment will apply to dividend compensation payments that are made on or after Budget Day.

Sales and Excise Tax Measures

GST/HST Health Measures

Under the Goods and Services Tax/Harmonized Sales Tax (GST/HST), tax relief is provided for basic health care services and products. This is achieved by exempting the services of basic health care professionals, such as doctors, dentists and physiotherapists, and zero-rating prescription drugs, certain biologicals and certain specially designed medical devices.

Exempt treatment means that suppliers of exempt health care services do not charge the GST/HST, but they cannot claim input tax credits to recover the GST/HST paid on inputs in relation to these supplies. Zero-rating means that suppliers do not charge purchasers the GST/HST on these supplies and are entitled to claim input tax credits to recover the GST/HST paid on inputs in relation to these supplies. The health care services and medical items eligible for GST/HST relief are listed in the GST/HST legislation.

Budget 2019 proposes to extend the application of the GST/HST relief to certain biologicals, medical devices and health care services to reflect the evolving nature of the health care sector.

Human Ova and *In Vitro* Embryos

Canadians experiencing infertility, as well as single individuals and same-sex couples, are increasingly turning to assisted human reproduction to help build their families. Donated human sperm, ova or *in vitro* embryos may be used as part of an assisted human reproduction procedure. At present, human sperm is zero-rated in the GST/HST legislation, while human ova and *in vitro* embryos are not.

Technological advances have resulted in donated human ova and *in vitro* embryos now being used in assisted human reproduction procedures and the *Assisted Human Reproduction Act* has established a framework for assisted human reproduction in Canada. Under this framework, donated human sperm or ova may be legally imported or purchased in Canada from a reproduction clinic or donor bank, so long as these facilities are not acting on behalf of a donor. In addition, donated human *in vitro* embryos may be legally imported into Canada.

To reflect developments in the health care sector related to assisted human reproduction, Budget 2019 proposes to provide GST/HST relief for human ova and *in vitro* embryos, similar to the relief provided for human sperm. In line with the legal framework for assisted human reproduction, it is proposed that supplies and imports of human ova be relieved of the GST/HST, and that imports of human *in vitro* embryos also be relieved of the GST/HST.

This measure will apply to supplies and imports of human ova made after Budget Day, and to imports of human *in vitro* embryos made after Budget Day.

The Government is also committed to ensuring that the medical expense tax credit reflects medically related developments. To this end, the Government will be reviewing the tax treatment of fertility-related medical expenses under the medical expense tax credit (for the purposes of the *Income Tax Act*) for fairness and consistency, and in light of work being undertaken by Health Canada in relation to the *Assisted Human Reproduction Act* and supporting regulations.

Foot Care Devices Supplied on the Order of a Podiatrist or Chiropodist

Medical and assistive devices that are designed to assist an individual with a disability or impairment are zero-rated under the GST/HST. Certain medical and assistive devices are eligible for this relief only when supplied on the written order of a physician, nurse, physiotherapist or occupational therapist. The list of medical and assistive devices that are zero-rated only when supplied on the written order of these practitioners includes certain foot care devices, such as orthopedic devices and anti-embolic stockings.

Podiatrists and chiropodists are regulated health professionals in most provinces, and are often the only practitioner seen by an individual for treatment of a foot problem or disorder. The health care services of podiatrists and chiropodists are also exempt from the GST/HST. However, they are not among the list of practitioners on whose order certain medical devices can be sold on a zero-rated basis.

In recognition of their role in the health care system, Budget 2019 proposes to add licenced podiatrists and chiropodists to the list of practitioners on whose order supplies of foot care devices are zero-rated.

This measure will apply to supplies of these items made after Budget Day.

Multidisciplinary Health Care Services

Certain health care services may be provided by a multidisciplinary team of licensed health care professionals. For example, an assessment and rehabilitation program can be rendered jointly by a team consisting of a physician, an occupational therapist, and a physiotherapist.

When supplied separately, the services rendered by these health care professionals would generally be exempt from GST/HST. However, there is currently no provision under the GST/HST that explicitly relieves the service of a multidisciplinary health care team that combines elements of the various practices.

Budget 2019 proposes to exempt from the GST/HST the supply of these multidisciplinary health services. The relief will apply to a service rendered by a team of health professionals, such as doctors, physiotherapists and occupational therapists, whose services are GST/HST-exempt when supplied separately. The exemption will apply provided that all or substantially all – generally 90 per cent or more – of the service is rendered by such health professionals acting within the scope of their profession.

This measure will apply to supplies of multidisciplinary health services made after Budget Day.

Cannabis Taxation

New Classes of Cannabis Products

On October 17, 2018, the sale of cannabis for non-medical purposes became legal in Canada under the *Cannabis Act*. There are currently five classes of cannabis products permitted for legal sale: fresh cannabis, dried cannabis, cannabis oil, cannabis plant seeds and cannabis plants.

The Government released for consultation in December 2018 draft regulations governing the production and sale of additional classes of cannabis products, namely edible cannabis, cannabis extracts and cannabis topicals. Following the upcoming legalization and regulation of these three new classes of cannabis products, it is expected that there will eventually be seven classes in total, since cannabis oils are proposed to be subsumed under the new ‘cannabis extract’ product class after a six-month transition period.

Currently, all cannabis products (including cannabis oils) are generally subject to an excise duty under the *Excise Act, 2001* that is the higher of a flat rate applied on the quantity of cannabis contained in a final product and a percentage of the dutiable amount of the product as sold by the producer (*ad valorem* rate). Budget 2019 proposes an approach to more effectively apply the duty to these new classes of cannabis products, as well as to cannabis oils.

Budget 2019 proposes that edible cannabis, cannabis extracts (including cannabis oils) and cannabis topicals be subject to excise duties imposed on cannabis licensees at a flat rate applied on the quantity of total tetrahydrocannabinol (THC), the primary psychoactive compound in cannabis, contained in a final product. The THC-based duty will be imposed at the time of packaging of a product and become payable when it is delivered to a non-cannabis licensee (e.g., a provincial wholesaler, retailer or individual consumer).

The proposed THC-based rate would alleviate compliance issues that producers have encountered with respect to the tracking of the quantity of cannabis material contained in cannabis oils, and would allow producers and administrators to more easily calculate and verify excise duties for cannabis edibles, extracts and topicals. This will be facilitated by requirements in the labelling regulations under the *Cannabis Act* that mandate the display of total THC content on cannabis products packaging.

The current excise duty regime and associated rates for fresh and dried cannabis, and seeds and seedlings, will be unaffected by this proposed change. Current exemptions under the excise duty framework will also continue to apply in respect of fresh and dried cannabis and cannabis oils that contain no more than 0.3 per cent THC, as well as for pharmaceutical cannabis products that have a Drug Identification Number and can only be acquired through a prescription.

The federal government has entered into Coordinated Cannabis Taxation Agreements (CCTAs) with most provincial and territorial governments, with the aim of keeping duties on cannabis low through a federally administrated coordinated framework. The agreement provides that 75 per cent of the duties go to provincial and territorial governments and the remaining 25 per cent to the federal government. For the first two years of the agreement, the federal portion of cannabis excise duty revenue is capped at \$100 million annually, with any federal revenue in excess of \$100 million provided to provinces and territories. The proposed measure will not affect the CCTAs.

- The combined federal-provincial-territorial THC-based excise duty rate for cannabis edibles, cannabis extracts (including cannabis oils) and cannabis topicals is proposed to be \$0.01 per milligram of total THC.
- The new proposed rate is not expected to materially change the overall projected excise duty revenues from these products under the combined federal-provincial-territorial \$1 per gram rate presented in Budget 2018.
- Consistent with the CCTAs signed with provinces and territories, the new THC-based regime will provide for the application of a federal THC-based rate, as well as an additional THC-based rate in respect of provinces and territories, which results in the agreed-upon 75:25 revenue split. These respective rates are set out for each province and territory in Table 6.
- Where provinces and territories have requested a sales tax adjustment under the CCTAs to account for differences in general sales tax rates across the country, the adjustment will continue to be computed as an *ad valorem* additional duty.

Table 6.

Proposed Excise Duty Rates for Cannabis Edibles, Cannabis Extracts (Incl. Oil) and Cannabis Topicals

Province/Territory	Federal Rate (\$/mg of total THC)	Additional Rate in Respect of Province/Territory (\$/mg of total THC)	Current Ad Valorem Sales Tax Adjustment (per cent)
Alberta	0.0025	0.0075	16.8
British Columbia	0.0025	0.0075	-
Manitoba	0.0025	N/A	-
New Brunswick	0.0025	0.0075	-
Newfoundland and Labrador	0.0025	0.0075	-
Northwest Territories	0.0025	0.0075	-
Nova Scotia	0.0025	0.0075	-
Nunavut	0.0025	0.0075	19.3
Ontario	0.0025	0.0075	3.9
Prince Edward Island	0.0025	0.0075	-
Quebec	0.0025	0.0075	-
Saskatchewan	0.0025	0.0075	6.45
Yukon	0.0025	0.0075	-

Transitional Rules

The proposed changes to the excise duty framework will come into effect on May 1, 2019.

- As a practical matter, the changes will initially apply to cannabis oil products packaged by licensed producers.
- Any cannabis oil product that is packaged for final retail sale before May 1, 2019 will be subject to the currently applicable excise duty rate, regardless of the date of its final delivery to a purchaser.
- As cannabis edibles, other cannabis extracts and cannabis topicals become legally permitted for production and sale under the *Cannabis Act*, licensed producers will be subject to the new THC-based excise duty rules as they relate to these products.

Previously Announced Measures

Budget 2019 confirms the Government's intention to proceed with the following previously announced tax and related measures, as modified to take into account consultations and deliberations since their release:

- Income tax measures announced on November 21, 2018 in the Fall Economic Statement to
 - provide for the Accelerated Investment Incentive,
 - allow the full cost of machinery and equipment used in the manufacturing and processing of goods, and the full cost of specified clean energy equipment, to be written off immediately,
 - extend the 15-per-cent mineral exploration tax credit for an additional five years, and
 - ensure that business income of communal organizations retains its character when it is allocated to members of the communal organization for tax purposes;
- Regulatory proposals released on September 17, 2018 relating to the taxation of cannabis;
- Remaining legislative and regulatory proposals released on July 27, 2018 relating to the Goods and Services Tax/Harmonized Sales Tax;
- The measures referenced in Budget 2018 to support employees who must reimburse a salary overpayment to their employers due to a system, administrative or clerical error;
- The income tax measures announced in Budget 2018 to implement enhanced reporting requirements for certain trusts to provide additional information on an annual basis;
- The income tax measures announced in Budget 2018 to facilitate the conversion of Health and Welfare Trusts to Employee Life and Health Trusts;
- Measures confirmed in Budget 2016 relating to the Goods and Services Tax/Harmonized Sales Tax joint venture election;
- The income tax measures announced in Budget 2016 expanding tax support for electric vehicle charging stations and electrical energy storage equipment; and
- The income tax measures announced in Budget 2016 on information-reporting requirements for certain dispositions of an interest in a life insurance policy.

Budget 2019 also reaffirms the Government's commitment to move forward as required with technical amendments to improve the certainty of the tax system.

Notice of Ways and Means Motion

Notice of Ways and Means Motion to Amend the Income Tax Act and Other Related Legislation

That it is expedient to amend the *Income Tax Act* (the "Act") and other related legislation as follows:

Canada Training Credit

1 (1) The portion of subsection 117.1(1) of the Act before paragraph (a) is replaced by the following:

Annual adjustment

117.1 (1) The amount of \$1,000 referred to in the formula in paragraph 8(1)(s), each of the amounts expressed in dollars in subparagraph 6(1)(b)(v.1), subsection 117(2), the description of B in subsection 118(1), subsection 118(2), paragraph (a) of the description of B in subsection 118(10), subsection 118.01(2), the descriptions of C and F in subsection 118.2(1) and subsections 118.3(1), 122.5(3) and 122.51(1) and (2), the amount of \$400,000 referred to in the formula in paragraph 110.6(2)(a), the amounts of \$1,355 and \$2,335 referred to in the description of A, and the amounts of \$12,820 and \$17,025 referred to in the description of B, in the formula in subsection 122.7(2), the amount of \$700 referred to in the description of C, and the amounts of \$24,111 and \$36,483 referred to in the description of D, in the formula in subsection 122.7(3), the amount of \$10,000 referred to in the description of B in the formula in subsection 122.91(2), and each of the amounts expressed in dollars in Part I.2 in relation to tax payable under this Part or Part I.2 for a taxation year shall be adjusted so that the amount to be used under those provisions for the year is the total of

(2) Subsection (1) applies to the 2020 and subsequent taxation years, except that the adjustment provided for in subsection 117.1(1) of the Act, as amended by subsection (1), does not apply for the 2020 taxation year in respect of the amount of \$10,000.

2 (1) The portion of subsection 118.5(1) of the Act before paragraph (a) is replaced by the following:

Tuition credit

118.5 (1) Subject to subsection (1.2), for the purpose of computing the tax payable under this Part by an individual for a taxation year, there may be deducted,

(2) Section 118.5 of the Act is amended by adding the following after subsection (1.1):

Canada training credit reduction

(1.2) The amount that may be deducted in a taxation year by an individual under subsection (1) is to be reduced by the amount determined by the formula

$$A \times B$$

where

- A** is the appropriate percentage for the taxation year; and
- B** is the amount, if any, deemed to have been paid by the individual under subsection 122.91(1) in respect of the taxation year.

(3) Subsections (1) and (2) are deemed to have come into force on January 1, 2019.

3 (1) The Act is amended by adding the following after section 122.9:

Subdivision a.5 – Canada Training Credit

Claimed amount

122.91 (1) An individual who is resident in Canada throughout a taxation year, files a return of income for the taxation year and makes a claim under this subsection is deemed to have paid, at the end of the taxation year, on account of tax payable under this Part for the taxation year, an amount claimed by the individual that does not exceed the lesser of

- (a) the training amount limit of the individual for the taxation year, and
- (b) 50% of the amount that would be deductible under paragraph 118.5(1)(a) or (d) in computing the individual's tax payable under this Part for the taxation year if
 - (i) this Act were read without reference to subsection 118.5(1.2) and (2), and
 - (ii) the appropriate percentage for the taxation year were 100%.

Definition of training amount limit

(2) In this section, the **training amount limit**, of an individual for a taxation year, is

(a) if the taxation year is after 2019 and the individual has attained the age of 26 years, and has not attained the age of 66 years, before the end of the taxation year, the lesser of

- (i) the amount determined by the formula

$$\mathbf{A + B - C}$$

where

A is the individual's training amount limit for the preceding taxation year,

B is

(A) \$250, if

(I) the individual was resident in Canada throughout the preceding taxation year,

(II) the total of the following amounts is greater than or equal to \$10,000:

1 the amount that would be the individual's *working income* (as defined in subsection 122.7(1)) for the preceding taxation year, if this Act were read without reference to paragraph 81(1)(a) and subsection 81(4),

2 the total of all amounts each of which is an amount payable to the individual under subsection 22(1), 23(1), 152.04(1) or 152.05(1) of the *Employment Insurance Act* in the preceding taxation year, and

3 the amount that would be included in the individual's income because of subparagraph 56(1)(a)(vii) in computing the individual's income for the preceding taxation year, if this Act were read without reference to paragraph 81(1)(a), and

(III) the individual's income for the preceding taxation year under this Part does not exceed the higher dollar amount referred to in paragraph 117(2)(c), as adjusted under this Act for the preceding taxation year, and

(B) nil, in any other case, and

C is the amount deemed to have been paid by the individual under subsection (1) in respect of the preceding taxation year, and

- (ii) the amount determined by the formula

$$\mathbf{\$5,000 - D}$$

where

- D** is the total of all amounts deemed to have been paid by the individual under subsection (1) in respect of a preceding taxation year; and
- (b)** nil, in any other case.

Effect of bankruptcy

(3) For the purpose of this subdivision, if an individual becomes bankrupt in a particular calendar year,

- (a)** notwithstanding subsection 128(2), any reference to the taxation year of the individual (other than in this subsection) is deemed to be a reference to the particular calendar year; and
- (b)** the individual's working income and income under this Part for the taxation year ending on December 31 of the particular calendar year is deemed to include the individual's working income and the income under this Part for the taxation year that begins on January 1 of the particular calendar year.

Special rules in the event of death

(4) For the purposes of this section, if an individual dies in a calendar year,

- (a)** the individual is deemed to be resident in Canada from the time of death until the end of the year;
- (b)** the individual is deemed to be the same age at the end of the year as the individual would have been if the individual were alive at the end of the year; and
- (c)** any return of income filed by a legal representative of the individual is deemed to be a return of income filed by the individual.

(2) Subsection (1) is deemed to have come into force on January 1, 2019.

4 (1) Paragraph 152(1)(b) of the Act is replaced by the following:

- (b)** the amount of tax, if any, deemed by subsection 120(2) or (2.2), 122.5(3), 122.51(2), 122.7(2) or (3), 122.8(4), 122.9(2), 122.91(1), 125.4(3), 125.5(3), 125.6(2), 127.1(1), 127.41(3) or 210.2(3) or (4) to be paid on account of the taxpayer's tax payable under this Part for the year.

(2) Paragraph 152(4.2)(b) of the Act is replaced by the following:

- (b)** redetermine the amount, if any, deemed by subsection 120(2) or (2.2), 122.5(3), 122.51(2), 122.7(2) or (3), 122.8(4), 122.9(2), 122.91(1), 127.1(1), 127.41(3) or 210.2(3) or (4) to be paid on account of the taxpayer's tax payable under this Part for the year or deemed by subsection 122.61(1) to be an overpayment on account of the taxpayer's liability under this Part for the year.

(2) Subsections (1) and (2) are deemed to have come into force on January 1, 2019.

5 (1) Subsection 163(2) of the Act is amended by adding the following after paragraph (c.5):

- (c.6)** the amount, if any, by which

- (i)** the total of all amounts each of which is an amount that would be deemed by subsection 122.91(1) to have been paid on account of the person's tax payable under this Part for the year if those amounts were calculated by reference to the information provided in the return

exceeds

- (ii)** the total of all amounts each of which is an amount that is deemed by subsection 122.91(1) to be a payment on account of the person's tax payable under this Part for the taxation year,

(2) Subsection (1) is deemed to have come into force on January 1, 2019.

Home Buyers' Plan

6 (1) The definition *excluded withdrawal* in subsection 146.01(1) of the Act is amended by striking out “or” at the end of paragraph (b), by adding “or” at the end of paragraph (c) and by adding the following after paragraph (c):

(d) a particular amount (other than an eligible amount) received while the individual was resident in Canada and in a calendar year if

(i) the particular amount would be a regular eligible amount if subsection (2.1) were read without reference to its subparagraph (a)(iii),

(ii) a payment (other than an excluded premium) equal to the particular amount is made by the individual under a retirement saving plan that is, at the end of the taxation year of the payment, a registered retirement savings plan under which the individual is the annuitant, and

(iii) the payment is made before the end of the second calendar year after the calendar year that includes the particular time referred to in subsection (2.1);

(2) Paragraph (h) of the definition *regular eligible amount* in subsection 146.01(1) of the Act is replaced by the following:

(h) the total of the amount and all other eligible amounts received by the individual in the calendar year that includes the particular time does not exceed \$35,000, and

(3) Paragraph (g) of the definition *supplemental eligible amount* in subsection 146.01(1) of the Act is replaced by the following:

(g) the total of the amount and all other eligible amounts received by the individual in the calendar year that includes the particular time does not exceed \$35,000, and

(4) Section 146.01 of the Act is amended by adding the following after subsection (2):

Marriage or common-law partnership

(2.1) Notwithstanding paragraph (2)(a.1), for the purposes of the definition *regular eligible amount*,

(a) an individual, and a spouse or common-law partner of the individual, are deemed not to have an owner-occupied home in a period ending before a particular time referred to in that definition if

(i) at the particular time, the individual

(A) is living separate and apart from the individual's spouse or common-law partner because of a breakdown of their marriage or common-law partnership,

(B) has been living separate and apart from the individual's spouse or common-law partner for a period of at least 90 days, and

(C) began living separate and apart from the individual's spouse or common-law partner in the calendar year that includes the particular time or any time in the four preceding calendar years,

(ii) in the absence of this subsection, the individual would not have a regular eligible amount because of the application of paragraph (f) of that definition in respect of a spouse or common-law partner other than the spouse or common-law partner referred to in clauses (i)(A) to (C), and

(iii) where the individual has an owner-occupied home at the particular time,

(A) the home is not the qualifying home referred to in that definition and the individual disposes of the home no later than the end of the second calendar year after the calendar year that includes the particular time, or

(B) the individual acquires the interest of the spouse or common-law partner in the home; and

(b) if an individual to whom paragraph (a) applies has an owner-occupied home at the particular time referred to in that paragraph and the individual acquires the interest of a spouse or common-law partner in the home, the individual is deemed for the purposes of paragraphs (c) and (d) of that definition to have acquired a qualifying home on the date that the individual acquired the interest.

(5) Subsections (1) and (4) apply in respect of amounts received after 2019.

(6) Subsections (2) and (3) apply to the 2019 and subsequent taxation years in respect of amounts received after Budget Day.

Change in Use Rules for Multi-Unit Residential Properties

7 (1) Subsection 45(2) of the Act is replaced by the following:

Election where change of use

(2) For the purposes of this subdivision and section 13, if a taxpayer elects in respect of any property of the taxpayer in the taxpayer's return of income for a taxation year under this Part,

(a) if subparagraph (1)(a)(i) or paragraph 13(7)(b) would otherwise apply to the property for the taxation year, the taxpayer is deemed not to have begun to use the property for the purpose of gaining or producing income;

(b) if subparagraph (1)(c)(ii) or 13(7)(d)(i) would otherwise apply to the property for the taxation year, the taxpayer is deemed not to have increased the use regularly made of the property for the purpose of gaining or producing income relative to the use regularly made of the property for other purposes; and

(c) if the taxpayer rescinds the election in respect of the property in the taxpayer's return of income under this Part for a subsequent taxation year,

(i) if paragraph (a) applied to the taxpayer in the taxation year, the taxpayer is deemed to have begun to use the property for the purpose of gaining or producing income on the first day of the subsequent taxation year, and

(ii) if paragraph (b) applied to the taxpayer in the taxation year, the taxpayer is deemed to have increased the use regularly made of the property for the purpose of gaining or producing income on the first day of the subsequent taxation year by the amount that would have been the increase in the taxation year if the election had not been made.

(2) The portion of subsection 45(3) of the Act before paragraph (a) is replaced by the following:

Election concerning principal residence

(3) If at any time a property that was acquired by a taxpayer for the purpose of gaining or producing income, or that was acquired in part for that purpose, ceases in whole or in part to be used for that purpose and becomes, or becomes part of, the principal residence of the taxpayer, paragraphs (1)(a) and (c) shall not apply to deem the taxpayer to have disposed of the property at that time and to have reacquired it immediately thereafter if the taxpayer so elects by notifying the Minister in writing on or before the earlier of

(3) Subsections (1) and (2) apply in respect of changes in the use of property that occur on or after Budget Day.

Permitting Additional Types of Annuities under Registered Plans

8 The Act is modified to give effect to the proposals relating to permitting additional types of annuities under registered plans described in the budget documents tabled by the Minister of Finance in the House of Commons on Budget Day.

Registered Disability Savings Plan — Cessation of Eligibility for the Disability Tax Credit

9 The Act is modified to give effect to the proposals relating to the Registered Disability Savings Plan — cessation of eligibility for the disability tax credit measure described in the budget documents tabled by the Minister of Finance in the House of Commons on Budget Day.

Tax Measures for Kinship Care Providers

10 (1) Subsection 81(1) of the Act is amended by adding the following after paragraph (h):

Social assistance for informal care programs

(h.1) if the taxpayer is an individual (other than a trust), a social assistance payment ordinarily made on the basis of a means, needs or income test provided for under a program of the Government of Canada or the government of a province, to the extent that it is received directly or indirectly by the taxpayer for the benefit of a particular individual, if

(i) payments to recipients under the program are made for the care and upbringing, on a temporary basis, of another individual in need of protection,

(ii) the particular individual is a child of the taxpayer because of paragraph 252(1)(b) (or would be a child of the taxpayer because of that paragraph if the taxpayer did not receive payments under the program), and

(iii) no special allowance under the *Children's Special Allowances Act* is payable in respect of the particular individual for the period in respect of which the social assistance payment is made;

(2) Subsection (1) is deemed to have come into force on January 1, 2009.

11 (1) Section 122.7 of the Act is amended by adding the following after subsection (1.1):

Receipt of social assistance

(1.2) For the purposes of applying the definitions *eligible dependant* and *eligible individual* in subsection (1) for a taxation year, an individual shall not fail to qualify as a parent (within the meaning assigned by section 252) of another individual solely because of the receipt of a social assistance amount that is payable under a program of the Government of Canada or the government of a province for the benefit of the other individual, unless the amount is a special allowance under the *Children's Special Allowances Act* in respect of the other individual in the taxation year.

(2) Subsection (1) is deemed to have come into force on January 1, 2009.

Donations of Cultural Property

12 (1) The portion of subparagraph 39(1)(a)(i.1) of the Act before clause (A) is replaced by the following:

(i.1) an object that the Canadian Cultural Property Export Review Board has determined meets the criteria set out in paragraph 29(3)(b) of the *Cultural Property Export and Import Act* if

(2) Subsection (1) is deemed to have come into force on Budget Day.

13 (1) Paragraph 110.1(1)(c) of the Act is replaced by the following:

Gifts to institutions

(c) the total of all amounts each of which is the eligible amount of a gift (other than a gift described in paragraph (d)) of an object that the Canadian Cultural Property Export Review Board has determined meets the criteria set out in paragraph 29(3)(b) of the *Cultural Property Export and Import Act*, which gift was made by the corporation in the year or in any of the five preceding taxation years to an institution or a public authority in Canada that was, at the time the gift was made, designated under subsection 32(2) of that Act either generally or for a specified purpose related to that object; and

(2) Subsection (1) is deemed to have come into force on Budget Day.

14 (1) Paragraph (a) of the definition *total cultural gifts* in subsection 118.1(1) of the Act is replaced by the following:

(a) of an object that the Canadian Cultural Property Export Review Board has determined meets the criteria set out in paragraph 29(3)(b) of the *Cultural Property Export and Import Act*,

(2) Subsection (1) is deemed to have come into force on Budget Day.

15 (1) Subsection 32(1) of the *Cultural Property Export and Import Act* is replaced by the following:

Request for determination of Review Board

32 (1) For the purposes of subparagraph 39(1)(a)(i.1), paragraph 110.1(1)(c), the definition *total cultural gifts* in subsection 118.1(1) and subsection 118.1(10) of the *Income Tax Act*, where a person disposes of or proposes to dispose of an object to an institution or a public authority designated under subsection (2), the person, institution or public authority may request, by notice in writing given to the Review Board, a determination by the Review Board as to whether the object meets the criteria set out in paragraph 29(3)(b) and a determination by the Review Board of the fair market value of the object.

(2) Subsection (1) is deemed to have come into force on Budget Day.

16 (1) Subsection 33(1) of the *Cultural Property Export and Import Act* is replaced by the following:

Income tax certificate

33 (1) Where the Review Board determines or redetermines the fair market value of an object in respect of which a request was made under section 32 and determines that the object meets the criteria set out in paragraph 29(3)(b), it shall, where the object has been irrevocably disposed of to a designated institution or public authority, issue to the person who made the disposition a certificate attesting to the fair market value and to the meeting of those criteria, in such form as the Minister of National Revenue may specify.

(2) Subsection (1) is deemed to have come into force on Budget Day.

Medical Expense Tax Credit

17 (1) Paragraph 118.2(2)(u) of the Act is replaced by the following:

Cannabis for medical purposes

(u) on behalf of the patient who is the holder of a *medical document* (as defined in subsection 264(1) of the *Cannabis Regulations*) to support their use of cannabis for medical purposes, for the cost of cannabis, cannabis oil, cannabis plant seeds or cannabis products purchased for medical purposes from a holder of a *licence for sale* (as defined in subsection 264(1) of the *Cannabis Regulations*).

(2) Subsection (1) is deemed to have come into force on October 17, 2018.

Contributions to a Specified Multi-Employer Plan for Older Members

18 (1) Subsection 8510(7) of the *Income Tax Regulations* (the “Regulations”) is amended by striking out “and” at the end of paragraph (a), by adding “and” at the end of paragraph (b) and by adding the following after that paragraph:

- (c) no contributions are made
- (i) to the plan with respect to a member at any time after the end of the calendar year in which the member attains 71 years of age, or
- (ii) to a defined benefit provision of the plan with respect to a member during a period (other than a *qualifying period*, as defined in subsection 8503(16)) in which the member is in receipt of retirement benefits from a defined benefit provision of the plan.

(2) Subsection (1) applies in respect of contributions made pursuant to any collective bargaining agreement entered into after 2019, except that it does not apply in respect of contributions made on or before the date the agreement is entered into.

Pensionable Service Under an Individual Pension Plan

19 (1) Paragraph 147.3(3)(c) of the Act is replaced by the following:

- (c) is transferred directly to another registered pension plan to be held in connection with a defined benefit provision of the other plan, unless the transfer is to an *individual pension plan* (as defined by regulation) and is in respect of benefits that are attributable to employment with a former employer that is not a participating employer (or its predecessor employer); and

(2) Subsection (1) is deemed to have come into force on Budget Day.

20 (1) The portion of subparagraph 8503(3)(a)(v) of the Regulations before clause (A) is replaced by the following:

- (v) unless the provision is a provision of an individual pension plan, a period in respect of which

(2) The portion of subparagraph 8503(3)(a)(v.1) of the Regulations before clause (A) is replaced by the following:

- (v.1) unless the provision is a provision of an individual pension plan, a portion – determined by reference to the proportion of property that has been transferred, as described in clause (B) – of a period in respect of which

(3) Subparagraph 8503(3)(a)(vi) of the Regulations is replaced by the following:

- (vi) unless the provision is a provision of an individual pension plan, a period throughout which the member was employed in Canada by a former employer where the period was an eligibility period for the participation of the member in another registered pension plan, and

(4) Subsections (1) to (3) are deemed to have come into force on Budget Day. However, subsections (1) to (3) do not apply to a period that was *pensionable service* (as defined in subsection 8500(1) of the Regulations) in respect of a member under a defined benefit provision of an individual pension plan before Budget Day.

Mutual Funds: Allocation to Redeemers Methodology

21 (1) Section 132 of the Act is amended by adding the following after subsection (5.2):

Allocation to redeemers

(5.3) If a trust that is a mutual fund trust throughout a taxation year paid or made payable, at any time in the taxation year, to a beneficiary an amount on a redemption by that beneficiary of a unit of the trust (in this subsection referred to as the “allocated amount”), and the beneficiary’s proceeds from the disposition of that unit do not include the allocated amount, in computing its income for the taxation year no deduction may be made by the trust in respect of

- (a)** the portion of the allocated amount that would be, without reference to subsection 104(6), an amount paid out of the income (other than taxable capital gains) of the trust; and
- (b)** the portion of the allocated amount determined by the formula

$$A - 1/2 (B + C - D)$$

where

- A** is the portion of the allocated amount that would be, without reference to subsection 104(6), an amount paid out of the taxable capital gains of the trust,
- B** is the beneficiary’s proceeds from the disposition of the unit on the redemption,
- C** is the allocated amount, and
- D** is the beneficiary’s cost amount of that unit.

(2) Subsection (1) applies to taxation years that begin on or after Budget Day.

Carrying on Business in a Tax-Free Savings Account

22 (1) Section 146.2 of the Act is amended by adding the following after subsection (6):

Carrying on a business

(6.1) If tax is payable under this Part for a taxation year because of subsection (6) by a trust that is governed by a TFSA that carries on one or more businesses at any time in the taxation year,

- (a)** the holder of the TFSA is jointly and severally, or solidarily, liable with the trust to pay each amount payable under this Act by the trust that is attributable to that business or those businesses; and
- (b)** the issuer’s liability at any time for amounts payable under this Act in respect of that business or those businesses shall not exceed the total of the amount of property of the trust that the issuer is in possession or control of at that time in its capacity as legal representative of the trust and the total amount of all distributions of property from the trust on or after the date that the notice of assessment was sent in respect of the taxation year and before that time.

(2) Subsection (1) applies in respect of business activities in a TFSA for the 2019 and subsequent taxation years.

Electronic Delivery of Requirements for Information

23 (1) The portion of subsection 231.2(1) of the Act before paragraph (a) is replaced by the following:

Requirement to provide documents or information

231.2 (1) Notwithstanding any other provision of this Act, the Minister may, subject to subsection (2), for any purpose related to the administration or enforcement of this Act (including the collection of any amount payable under this Act by any person), of a listed international agreement or, for greater certainty, of a tax treaty with another country, by notice sent or served in accordance with subsection (1.1), require that any person provide, within such reasonable time as is stipulated in the notice,

(2) Section 231.2 of the Act is amended by adding the following after subsection (1):

Notice

(1.1) A notice referred to in subsection (1) may be

- (a)** served personally;
- (b)** sent by registered or certified mail; or
- (c)** sent electronically, in the case of a bank, or credit union, that has provided written consent to receive notices under subsection (1) electronically.

(3) Subsections (1) and (2) come into force on January 1, 2020.

24 (1) Subsection 231.6(2) of the Act is replaced by the following:

Requirement to provide foreign-based information

(2) Notwithstanding any other provision of this Act, the Minister may, by notice sent or served in accordance with subsection (3.1), require that a person resident in Canada or a non-resident person carrying on business in Canada provide any foreign-based information or document.

(2) Section 231.6 of the Act is amended by adding the following after subsection (3):

Notice

(3.1) A notice referred to in subsection (2) may be

- (a)** served personally;
- (b)** sent by registered or certified mail; or
- (c)** sent electronically, in the case of a bank, or credit union, that has provided written consent to receive notices under subsection (2) electronically.

(3) Subsection 231.6(4) of the English version of the Act is replaced by the following:

Review of foreign information requirement

(4) The person who is sent or served with a notice of a requirement under subsection (2) may, within 90 days after the notice is sent or served, apply to a judge for a review of the requirement.

(4) Subsection 231.6(6) of the English version of the Act is replaced by the following:

Idem

(6) For the purposes of paragraph (5)(c), the requirement to provide the information or document shall not be considered to be unreasonable because the information or document is under the control of or available to a non-resident person that is not controlled by the person who is sent or served with the notice of the requirement under subsection (2) if that person is related to the non-resident person.

(5) Subsection 231.6(8) of the Act is replaced by the following:

Consequence of failure

(8) If a person fails to comply substantially with a notice sent or served under subsection (2) and if the notice is not set aside by a judge pursuant to subsection (5), any court having jurisdiction in a civil proceeding relating to the administration or enforcement of this Act shall, on motion of the Minister, prohibit the introduction by that person of any foreign-based information or document covered by that notice.

(6) Subsections (1) to (5) come into force on January 1, 2020.

25 (1) Paragraph 231.8(a) of the Act is replaced by the following:

(a) where the taxpayer is sent or served with a notice of a requirement under subsection 231.2(1), the period of time between the day on which an application for judicial review in respect of the requirement is made and the day on which the application is finally disposed of; and

(2) Subsection (1) comes into force on January 1, 2020.

26 (1) Section 244 of the Act is amended by adding the following after subsection (6):

Proof of electronic delivery

(6.1) If, by this Act or a regulation, provision is made for sending a notice to a person electronically, an affidavit of an officer of the Canada Revenue Agency sworn before a commissioner or other person authorized to take affidavits, shall, in the absence of proof to the contrary, be received as evidence of the sending and of the notice if the affidavit sets out that

- (a) the officer has knowledge of the facts in the particular case;
- (b) the notice was sent electronically to the person on a named day; and
- (c) the officer identifies as exhibits attached to the affidavit copies of
 - (i) an electronic message confirming the notice has been sent to the person, and
 - (ii) the notice.

(2) Subsection (1) comes into force on January 1, 2020.

Related Amendments

27 (1) Subsection 99(1) of the Excise Tax Act is replaced by the following:

Provision of documents may be required

99 (1) Subject to section 102.1, the Minister may, for any purpose related to the administration or enforcement of this Act, or of a listed international agreement, by a notice served or sent in accordance with subsection (1.1), require that any person provide any book, record, writing or other document or any information or further information within any reasonable time that may be stipulated in the notice.

Notice

(1.1) A notice referred to in subsection (1) may be

- (a) served personally;
- (b) sent by registered or certified mail; or
- (c) sent electronically, in the case of a bank, or *credit union* (as defined in subsection 123(1)), that has provided written consent to receive notices under subsection (1) electronically.

(2) Subsection (1) comes into force on January 1, 2020.

28 (1) Subsection 102.1(1) of the Excise Tax Act is replaced by the following:

Unnamed persons

102.1 (1) The Minister shall not serve or send a notice under subsection 99(1) with respect to an unnamed person or a group of unnamed persons unless the Minister has been authorized to do so under subsection (2).

(2) The portion of subsection 102.1(2) of the *Excise Tax Act* before paragraph (a) is replaced by the following:

Authorization order

(2) A judge of the Federal Court may, on application by the Minister and subject to any conditions that the judge considers appropriate, authorize the Minister to serve or send a notice under subsection 99(1) with respect to an unnamed person or a group of unnamed persons if the judge is satisfied by information on oath that

(3) Paragraph 102.1(2)(b) of the *Excise Tax Act* is replaced by the following:

(b) the notice would be served or sent in order to verify compliance by the person or group with any duty or obligation of that person or of persons in that group under this Act.

(4) Subsections (1) to (3) come into force on January 1, 2020.

29 (1) Section 105 of the *Excise Tax Act* is amended by adding the following after subsection (2):

Proof of electronic delivery

(2.1) If, under this Act or a regulation made under this Act, provision is made for sending a notice to a person electronically, an affidavit of an officer of the Agency, sworn before a commissioner or other person authorized to take affidavits, is evidence of the sending and of the notice if the affidavit sets out that

- (a)** the officer has knowledge of the facts in the particular case;
- (b)** the notice was sent electronically to the person on a named day; and
- (c)** the officer identifies as exhibits attached to the affidavit copies of
 - (i)** an electronic message confirming the notice has been sent to the person, and
 - (ii)** the notice.

(2) Subsection (1) comes into force on January 1, 2020.

30 (1) The portion of subsection 289(1) of the *Excise Tax Act* before paragraph (a) is replaced by the following:

Requirement to provide documents or information

289 (1) Despite any other provision of this Part, the Minister may, subject to subsection (2), for any purpose related to the administration or enforcement of a listed international agreement or this Part, including the collection of any amount payable or remittable under this Part by any person, by a notice served or sent in accordance with subsection (1.1), require that any person provide the Minister, within any reasonable time that is stipulated in the notice, with

(2) Section 289 of the *Excise Tax Act* is amended by adding the following after subsection (1):

Notice

(1.1) A notice referred to in subsection (1) may be

- (a)** served personally;
- (b)** sent by registered or certified mail; or
- (c)** sent electronically, in the case of a bank, or credit union, that has provided written consent to receive notices under subsection (1) electronically.

(3) Subsections (1) and (2) come into force on January 1, 2020.

31 (1) Paragraph 289.2(a) of the *Excise Tax Act* is replaced by the following:

- (a) if the person is served or sent a notice of a requirement under subsection 289(1), the period of time between the day on which an application for judicial review in respect of the requirement is made and the day on which the application is finally disposed of; and

(2) Subsection (1) comes into force on January 1, 2020.

32 (1) Subsection 292(2) of the *Excise Tax Act* is replaced by the following:

Requirement to provide foreign-based information

(2) Despite any other provision of this Part, the Minister may, by a notice served or sent in accordance with subsection (3.1), require a person resident in Canada or a non-resident person that carries on business in Canada to provide any foreign-based information or document.

(2) Section 292 of the *Excise Tax Act* is amended by adding the following after subsection (3):

Notice

(3.1) A notice referred to in subsection (2) may be

- (a) served personally;
- (b) sent by registered or certified mail; or
- (c) sent electronically, in the case of a bank, or credit union, that has provided written consent to receive notices under subsection (2) electronically.

(3) Subsection 292(4) of the English version of the *Excise Tax Act* is replaced by the following:

Review of foreign information requirement

(4) If a person is served or sent a notice of a requirement under subsection (2), the person may, within 90 days after the day on which the notice is served or sent, apply to a judge for a review of the requirement.

(4) Subsection 292(6) of the English version of the *Excise Tax Act* is replaced by the following:

Requirement not unreasonable

(6) For the purposes of subsection (5), a requirement to provide information or a document shall not be considered to be unreasonable because the information or document is under the control of or available to a non-resident person that is not controlled by the person on whom the notice of the requirement under subsection (2) is served, or to which that notice is sent, if that person is related to the non-resident person.

(5) Subsection 292(8) of the English version of the *Excise Tax Act* is replaced by the following:

Consequence of failure

(8) If a person fails to comply substantially with a notice served or sent under subsection (2) and if the notice is not set aside under subsection (5), any court having jurisdiction in a civil proceeding relating to the administration or enforcement of this Part shall, on motion of the Minister, prohibit the introduction by that person of any foreign-based information or document covered by that notice.

(6) Subsections (1) to (5) come into force on January 1, 2020.

33 (1) Section 335 of the *Excise Tax Act* is amended by adding the following after subsection (2):

Proof of electronic delivery

(2.1) If, under this Part or a regulation made under this Part, provision is made for sending a notice to a person electronically, an affidavit of an officer of the Canada Revenue Agency, sworn before a commissioner or other person authorized to take affidavits, is evidence of the sending and of the notice if the affidavit sets out that

- (a)** the officer has knowledge of the facts in the particular case;
- (b)** the notice was sent electronically to the person on a named day; and
- (c)** the officer identifies as exhibits attached to the affidavit copies of
 - (i)** an electronic message confirming the notice has been sent to the person, and
 - (ii)** the notice.

(2) Subsection (1) comes into force on January 1, 2020.

34 (1) Subsection 38(1) of the *Air Travellers Security Charge Act* is replaced by the following:

Requirement to provide information

38 (1) Despite any other provision of this Act, the Minister may, by a notice served or sent in accordance with subsection (2.1), require a person that is resident in Canada or a person that is not resident in Canada but that carries on business in Canada to provide any information or record.

(2) Section 38 of the *Air Travellers Security Charge Act* is amended by adding the following after subsection (2):

Notice

(2.1) A notice referred to in subsection (1) may be

- (a)** served personally;
- (b)** sent by registered or certified mail; or
- (c)** sent electronically, in the case of a bank, or *credit union* (as defined in subsection 123(1) of the *Excise Tax Act*), that has provided written consent to receive notices under subsection (1) electronically.

(3) Subsection 38(3) of the English version of the *Air Travellers Security Charge Act* is replaced by the following:

Review of information requirement

(3) If a person is served or sent a notice of a requirement under subsection (1), the person may, within 90 days after the day on which the notice is served or sent, apply to a judge for a review of the requirement.

(4) Subsection 38(5) of the *Air Travellers Security Charge Act* is replaced by the following:

Requirement not unreasonable

(5) For the purposes of subsection (4), a requirement to provide information or a record shall not be considered to be unreasonable solely because the information or record is under the control of or available to a person that is not resident in Canada, if that person is related, for the purposes of the *Income Tax Act*, to the person on which the notice of the requirement is served or to which that notice is sent.

(5) Subsection 38(7) of the English version of the *Air Travellers Security Charge Act* is replaced by the following:

Consequence of failure

(7) If a person fails to comply substantially with a notice served or sent under subsection (1) and the notice is not set aside under subsection (4), any court having jurisdiction in a civil proceeding relating to the administration or enforcement of this Act shall, on the motion of the Minister, prohibit the introduction by that person of any information or record described in that notice.

(6) Subsections (1) to (5) come into force on January 1, 2020.

35 (1) Section 83 of the *Air Travellers Security Charge Act* is amended by adding the following after subsection (2):

Proof of electronic delivery

(2.1) If, under this Act, provision is made for sending a notice to a person electronically, an affidavit of an officer of the Agency, sworn before a commissioner or other person authorized to take affidavits, is evidence of the sending and of the notice if the affidavit sets out that

- (a)** the officer has knowledge of the facts in the particular case;
- (b)** the notice was sent electronically to the person on a named day; and
- (c)** the officer identifies as exhibits attached to the affidavit copies of
 - (i)** an electronic message confirming the notice has been sent to the person, and
 - (ii)** the notice.

(2) Subsection (1) comes into force on January 1, 2020.

36 (1) The portion of subsection 208(1) of the *Excise Act, 2001* before paragraph (a) is replaced by the following:

Requirement to provide records or information

208 (1) Despite any other provision of this Act, the Minister may, subject to subsection (2), for any purpose related to the administration or enforcement of a listed international agreement or of this Act, by a notice served or sent in accordance with subsection (1.1), require any person to provide the Minister, within any reasonable time that is stipulated in the notice, with

(2) Section 208 of the *Excise Act, 2001* is amended by adding the following after subsection (1):

Notice

(1.1) A notice referred to in subsection (1) may be

- (a)** served personally;
- (b)** sent by registered or certified mail; or
- (c)** sent electronically, in the case of a *bank*, or *credit union*, as those terms are defined in subsection 123(1) of the *Excise Tax Act*, that has provided written consent to receive notices under subsection (1) electronically.

(3) Subsections (1) and (2) come into force on January 1, 2020.

37 (1) Paragraph 209.1(a) of the *Excise Act, 2001* is replaced by the following:

- (a)** if the person is served or sent a notice of a requirement under subsection 208(1), the period of time between the day on which an application for judicial review in respect of the requirement is made and the day on which the application is finally disposed of; and

(2) Subsection (1) comes into force on January 1, 2020.

38 (1) Subsection 210(2) of the *Excise Act, 2001* is replaced by the following:

Requirement to provide foreign-based information

(2) Despite any other provision of this Act, the Minister may, by a notice served or sent in accordance with subsection (3.1), require a person resident in Canada or a non-resident person that carries on business in Canada to provide any foreign-based information or record.

(2) Section 210 of the *Excise Act, 2001* is amended by adding the following after subsection (3):

Notice

(3.1) A notice referred to in subsection (2) may be

- (a)** served personally;
- (b)** sent by registered or certified mail; or
- (c)** sent electronically, in the case of a *bank*, or *credit union*, as those terms are defined in subsection 123(1) of the *Excise Tax Act*, that has provided written consent to receive notices under subsection (2) electronically.

(3) Subsection 210(4) of the English version of the *Excise Act, 2001* is replaced by the following:

Review of foreign information requirement

(4) If a person is served or sent a notice of a requirement under subsection (2), the person may, within 90 days after the day on which the notice is served or sent, apply to a judge for a review of the requirement.

(4) Subsection 210(6) of the English version of the *Excise Act, 2001* is replaced by the following:

Requirement not unreasonable

(6) For the purposes of subsection (5), a requirement to provide information or a record shall not be considered to be unreasonable because the information or record is under the control of or available to a non-resident person that is not controlled by the person on which the notice of the requirement is served, or to which that notice is sent, if that person is related to the non-resident person.

(5) Subsection 210(8) of the English version of the *Excise Act, 2001* is replaced by the following:

Consequence of failure

(8) If a person fails to comply substantially with a notice served or sent under subsection (2) and the notice is not set aside under subsection (5), any court having jurisdiction in a civil proceeding relating to the administration or enforcement of this Act shall, on the motion of the Minister, prohibit the introduction by that person of any foreign-based information or record described in that notice.

(6) Subsections (1) to (5) come into force on January 1, 2020.

39 (1) Section 301 of the *Excise Act, 2001* is amended by adding the following after subsection (2):

Proof of electronic delivery

(2.1) If, under this Act, provision is made for sending a notice to a person electronically, an affidavit of an officer of the Agency, sworn before a commissioner or other person authorized to take affidavits, is evidence of the sending and of the notice if the affidavit sets out that

- (a)** the officer has knowledge of the facts in the particular case;
- (b)** the notice was sent electronically to the person on a named day; and

- (c) the officer identifies as exhibits attached to the affidavit copies of
 - (i) an electronic message confirming the notice has been sent to the person, and
 - (ii) the notice.

(2) Subsection (1) comes into force on January 1, 2020.

Support for Canadian Journalism

Qualified Donee Status

40 (1) Subsection 149(1) of the Act is amended by adding the following after paragraph (g):

Registered journalism organizations

- (h) a registered journalism organization;

(2) Subsection (1) comes into force on January 1, 2020.

41 (1) The definition *qualified donee* in subsection 149.1(1) of the Act is amended by adding the following after paragraph (b):

- (b.1) a registered journalism organization,

(2) Subsection 149.1(1) of the Act is amended by adding the following in alphabetical order:

qualifying journalism organization means a corporation or trust that meets the following conditions:

- (a) it is a qualified Canadian journalism organization,
- (b) it is constituted and operated for purposes exclusively related to journalism,
- (c) any business activities it carries on are related to its purposes,
- (d) it has a board of directors or trustees, each of whom deals at arm's length with each other,
- (e) it is not controlled, directly or indirectly in any manner whatever, by a person or by a group of persons that do not deal with each other at arm's length,
- (f) it may not, in a taxation year, receive gifts from any one source that represent more than 20% of its total revenues (including donations) for the taxation year, other than a gift
 - (i) made by way of bequest,
 - (ii) made within 12 months after the time the organization is first registered, or
 - (iii) approved, on a case-by-case basis, by the Minister, and
- (g) no part of its income is payable to, or otherwise available for the personal benefit of, any proprietor, member, shareholder, director, trustee, settlor or like individual; (*organisation journalistique admissible*)

(3) Subsection 149.1(4.3) of the Act is replaced by the following:

Revocation of a qualified donee

(4.3) The Minister may, in the manner described in section 168, revoke the registration of a qualified donee referred to in paragraph (a) or (b.1) of the definition *qualified donee* in subsection (1) for any reason described in subsection 168(1).

(4) Section 149.1 of the Act is amended by adding the following after subsection (14):

Information returns

(14.1) Every registered journalism organization shall, within six months from the end of each taxation year of the organization without notice or demand, file with the Minister both an information return and a public information return for the year in prescribed form and containing prescribed information including, for each donor whose total gifts to the organization in the year exceed \$5,000, the name of the donor and the total amount donated.

(5) Paragraphs 149.1(15)(a) and (b) of the Act are replaced by the following:

(a) the information contained in a public information return referred to in subsection 149.1(14) or (14.1) shall be communicated or otherwise made available to the public by the Minister in such manner as the Minister deems appropriate;

(b) the Minister may make available to the public in any manner that the Minister considers appropriate, in respect of each registered, or previously registered, charity, Canadian amateur athletic association, registered journalism organization and qualified donee referred to in paragraph (a) of the definition *qualified donee* in subsection (1),

(i) its name, address and date of registration,

(ii) in the case of a registered, or previously registered, charity, Canadian amateur athletic association or registered journalism organization, its registration number, and

(iii) the effective date of any revocation, annulment or termination of registration; and

(6) Subsection 149.1(22) of the Act is replaced by the following:

Refusal to register

(22) The Minister may, by registered mail, give notice to a person that the application of the person for registration as a registered charity, registered Canadian amateur athletic association, registered journalism organization or qualified donee referred to in subparagraph (a)(i) or (iii) of the definition *qualified donee* in subsection (1) is refused.

(7) Subsections (1) to (6) come into force on January 1, 2020.

42 (1) Paragraph 168(1)(c) of the Act is replaced by the following:

(c) in the case of a registered charity, registered Canadian amateur athletic association or registered journalism organization, fails to file an information return as and when required under this Act or a regulation;

(2) Paragraph 168(1)(f) of the Act is replaced by the following:

(f) in the case of a registered Canadian amateur athletic association or registered journalism organization, accepts a gift the granting of which was expressly or implicitly conditional on the association or organization making a gift to another person, club, society, association or organization.

(3) Subsection 168(2) of the Act is replaced by the following:

Revocation of registration

(2) If the Minister gives notice under subsection 168(1) to a registered charity, to a registered Canadian amateur athletic association or to a registered journalism organization,

(a) if it has applied to the Minister in writing for the revocation of its registration, the Minister shall, forthwith after the mailing of the notice, publish a copy of the notice in the *Canada Gazette*, and on that publication of a copy of the notice, the registration is revoked; and

(b) in any other case, the Minister may, after the expiration of 30 days from the day of mailing of the notice, or after the expiration of such extended period from the day of mailing of the notice as the Federal Court of Appeal or a judge of that Court, on application made at any time before the determination of any appeal pursuant to subsection 172(3) from the giving of the notice, may fix or allow, publish a copy of the notice in the *Canada Gazette*, and on that publication of a copy of the notice, the registration is revoked.

(4) Paragraph 168(4)(c) of the Act is replaced by the following:

(c) in the case of a person described in any of subparagraphs (a)(i) to (v) and paragraph (b.1) of the definition *qualified donee* in subsection 149.1(1), that is or was registered by the Minister as a qualified donee or is an applicant for such registration, it objects to a notice under any of subsections (1) and 149.1(4.3) and (22).

(5) Subsections (1) to (4) come into force on January 1, 2020.

43 (1) Paragraph 172(3)(a.2) of the Act is replaced by the following:

(a.2) confirms a proposal or decision in respect of which a notice was issued under any of subsections 149.1(4.3), (22) and 168(1) by the Minister, to a person that is a person described in any of subparagraphs (a)(i) to (v) and paragraph (b.1) of the definition *qualified donee* in subsection 149.1(1) that is or was registered by the Minister as a qualified donee or is an applicant for such registration, or does not confirm or vacate that proposal or decision within 90 days after service of a notice of objection by the person under subsection 168(4) in respect of that proposal or decision,

(2) Subsection (1) comes into force on January 1, 2020.

44 (1) Subsection 188.1(6) of the Act is replaced by the following:

Failure to file information returns

(6) Every registered charity, registered Canadian amateur athletic association and registered journalism organization that fails to file a return for a taxation year as and when required by subsection 149.1(14) or (14.1) is liable to a penalty equal to \$500.

(2) Subsection 188.1(7) of the Act is replaced by the following:

Incorrect information

(7) Except where subsection (8) or (9) applies, every registered charity, registered Canadian amateur athletic association and registered journalism organization that issues, in a taxation year, a receipt for a gift otherwise than in accordance with this Act and the regulations is liable for the taxation year to a penalty equal to 5% of the amount reported on the receipt as representing the amount in respect of which a taxpayer may claim a deduction under subsection 110.1(1) or a credit under subsection 118.1(3).

(3) Subsection 188.1(8) of the Act is replaced by the following:

Increased penalty for subsequent assessment

(8) Except where subsection (9) applies, if the Minister has, less than five years before a particular time, assessed a penalty under subsection (7) or this subsection for a taxation year of a registered charity, registered Canadian amateur athletic association or registered journalism organization and, after that assessment and in a subsequent taxation year, it issues, at the particular time, a receipt for a gift otherwise than in accordance with this Act and the regulations, it is liable for the subsequent taxation year to a penalty equal to 10% of the amount reported on the receipt as representing the amount in respect of which a taxpayer may claim a deduction under subsection 110.1(1) or a credit under subsection 118.1(3).

(4) Subsection 188.1(9) of the Act is replaced by the following:

False information

(9) If at any time a person makes or furnishes, participates in the making of or causes another person to make or furnish a statement that the person knows, or would reasonably be expected to know but for circumstances amounting to culpable conduct (within the meaning assigned by subsection 163.2(1)), is a false statement (within the meaning assigned by subsection 163.2(1)) on a receipt issued by, on behalf of or in the name of another person for the purposes of subsection 110.1(2) or 118.1(2), the person (or, where the person is an officer, employee, official or agent of a registered charity, registered Canadian amateur athletic association or registered journalism organization, the charity, association or organization) is liable for their taxation year that includes that time to a penalty equal to 125% of the amount reported on the receipt as representing the amount in respect of which a taxpayer may claim a deduction under subsection 110.1(1) or a credit under subsection 118.1(3).

(5) Subsections (1) to (4) come into force on January 1, 2020.

45 (1) The portion of subsection 188.2(1) of the Act before paragraph (a) is replaced by the following:

Notice of suspension with assessment

188.2 (1) The Minister shall, with an assessment referred to in this subsection, give notice by registered mail to a registered charity, registered Canadian amateur athletic association or registered journalism organization that its authority to issue an official receipt referred to in Part XXXV of the *Income Tax Regulations* is suspended for one year from the day that is seven days after the day on which the notice is mailed, if the Minister has assessed the charity, association or organization for a taxation year for

(2) Subsection 188.2(2.1) of the Act is replaced by the following:

Suspension – failure to report

(2.1) If a registered charity, a registered Canadian amateur athletic association or a registered journalism organization fails to report information that is required to be included in a return filed under subsection 149.1(14) or (14.1), the Minister may give notice by registered mail to the charity, association or organization that its authority to issue an official receipt referred to in Part XXXV of the *Income Tax Regulations* is suspended from the day that is seven days after the day on which the notice is mailed until such time as the Minister notifies the charity, association or organization that the Minister has received the required information in prescribed form.

(3) Subsections (1) and (2) come into force on January 1, 2020.

46 (1) The portion of subsection 230(2) of the Act before paragraph (a) is replaced by the following:

Records and books

(2) Every qualified donee referred to in paragraphs (a) to (c) of the definition *qualified donee* in subsection 149.1(1) shall keep records and books of account — in the case of a qualified donee referred to in any of subparagraphs (a)(i) and (iii) and paragraphs (b), (b.1) and (c) of that definition, at an address in Canada recorded with the Minister or designated by the Minister — containing

(2) Subsection (1) comes into force on January 1, 2020.

47 (1) The portion of subsection 241(3.2) of the Act before paragraph (a) is replaced by the following:

Certain qualified donees

(3.2) An official may provide to any person the following taxpayer information relating to another person (in this subsection referred to as the “registrant”) that was at any time a registered charity, registered Canadian amateur athletic association or registered journalism organization:

(2) Paragraph 241(3.2)(f) of the Act is replaced by the following:

(f) financial statements required to be filed with an information return referred to in subsection 149.1(14) or (14.1);

(3) Subsections (1) and (2) come into force on January 1, 2020.

48 (1) Subsection 248(1) of the Act is amended by adding the following in alphabetical order:

registered journalism organization means a *qualifying journalism organization* (as defined in subsection 149.1(1)) that has applied to the Minister in prescribed form for registration, that has been registered and whose registration has not been revoked; (*organisation journalistique enregistrée*)

(2) Subsection (1) comes into force on January 1, 2020.

49 (1) The portion of subsection 253.1(2) of the Act before paragraph (a) is replaced by the following:

Investments in limited partnerships

(2) For the purposes of section 149.1 and subsections 188.1(1) and (2), if a registered charity, a registered Canadian amateur athletic association or a registered journalism organization holds an interest as a member of a partnership, the member shall not, solely because of its acquisition and holding of that interest, be considered to carry on any business of the partnership if

(2) Subsection (1) comes into force on January 1, 2020.

50 (1) The definition *registered organization* in section 3500 of the Regulations is replaced by the following:

registered organization means a registered charity, a registered Canadian amateur athletic association, registered journalism organization or a registered national arts service organization. (*organisation enregistrée*)

(2) Subsection (1) comes into force on January 1, 2020.

51 (1) Paragraphs 5800(1)(d) and (e) of the Regulations are replaced by the following:

(d) in respect of

(i) any record of the minutes of meetings of the executive of a registered charity, registered Canadian amateur athletic association or registered journalism organization,

(ii) any record of the minutes of meetings of the members of a registered charity, registered Canadian amateur athletic association or registered journalism organization, and

(iii) all documents and by-laws governing a registered charity, registered Canadian amateur athletic association or registered journalism organization,

the period ending on the day that is two years after the date on which the registration of the registered charity, the registered Canadian amateur athletic association or the registered journalism organization under the Act is revoked;

(e) in respect of all records and books of account that are not described in paragraph (d) and that relate to a registered charity, registered Canadian amateur athletic association or registered journalism organization whose registration under the Act is revoked, and in respect of the vouchers and accounts necessary to verify the information in such records and books of account, the period ending on the day that is two years after the date on which the registration of the registered charity, the registered Canadian amateur athletic association or the registered journalism organization under the Act is revoked;

(2) Subsection (1) comes into force on January 1, 2020.

Refundable Labour Tax Credit

52 (1) Subsection 87(2) of the Act is amended by adding the following after paragraph (j.95):

Journalism organizations

(j.96) for the purposes of section 125.6, the new corporation is deemed to be the same corporation as, and a continuation of, each predecessor corporation;

(2) Subsection (1) is deemed to have come into force on January 1, 2019.

53 (1) The Act is amended by adding the following after section 125.5:

Definitions

125.6 (1) The following definitions apply in this section.

assistance means an amount, other than an amount deemed under subsection (2) to have been paid, that would be included under paragraph 12(1)(x) in computing the income of a taxpayer for any taxation year if that paragraph were read without reference to

(a) subparagraphs 12(1)(x)(v) to (viii), if the amount were received

(i) from a person or partnership described in subparagraph 12(1)(x)(ii), or

(ii) in circumstances where clause 12(1)(x)(i)(C) applies; and

(b) subparagraphs 12(1)(x)(v) to (vii), in any other case. (*montant d'aide*)

eligible newsroom employee, in respect of a qualified Canadian journalism organization in a taxation year, means an individual who

(a) is employed by the organization in the taxation year;

(b) works, on average, a minimum of 26 hours per week throughout the portion of the taxation year in which the individual is employed by the organization;

(c) at any time in the taxation year, has been, or is reasonably expected to be, employed by the organization for a minimum period of 40 consecutive weeks that includes that time;

(d) spends at least 75% of their time engaged in the production of news content, including by researching, collecting information, verifying facts, photographing, writing, editing, designing and otherwise preparing content; and

(e) meets any prescribed conditions. (*employé de salle de presse admissible*)

qualifying journalism organization, at any time, means a qualified Canadian journalism organization that meets the following conditions:

(a) it is primarily engaged in the production of original written news content;

(b) it does not carry on a *broadcasting undertaking* as defined in subsection 2(1) of the *Broadcasting Act*;

(c) it does not, in the taxation year in which the time occurs, receive an amount from the Aid to Publishers component of the Canada Periodical Fund; and

(d) if it is a corporation having share capital, it meets the conditions in subparagraph (e)(iii) of the definition *Canadian newspaper* in subsection 19(5). (*organisation journalistique admissible*)

qualifying labour expenditure, of a taxpayer for a taxation year in respect of an eligible newsroom employee, means the lesser of

(a) the amount determined by the formula

$$\$55,000 \times A/365$$

where

A is the lesser of 365 and the number of days in the taxation year, and

(b) the amount that is the salary or wages payable by the taxpayer to the eligible newsroom employee in respect of the portion of the taxation year throughout which the taxpayer is a qualified Canadian journalism organization. (*dépense de main-d'œuvre admissible*)

Tax credit

(2) A taxpayer that is a qualifying journalism organization at any time in a taxation year and that files a prescribed form containing prescribed information with its return of income for the year is deemed to have, on its balance-due day for the year, paid on account of its tax payable under this Part for the year an amount determined by the formula

$$0.25 \times (A - B)$$

where

A is the total of all amounts each of which is a qualifying labour expenditure of the qualified Canadian journalism organization for the year in respect of an eligible newsroom employee; and

B is the total of all amounts each of which is an amount of assistance that the taxpayer has received, is entitled to receive or can reasonably be expected to receive, in respect of the year that has not been repaid before the end of the year pursuant to a legal obligation to do so (and that does not reduce the amount determined for A).

When assistance received

(3) For the purposes of this Act other than this section, and for greater certainty, the amount that a corporation is deemed under subsection (2) to have paid for a taxation year is assistance received by the corporation from a government immediately before the end of the year.

(2) Subsection (1) is deemed to have come into force on January 1, 2019. For greater certainty, it does not apply in respect of salary or wages that are in respect of a period before January 1, 2019.

54 (1) Paragraph 152(1)(b) of the Act is replaced by the following:

(b) the amount of tax, if any, deemed by subsection 120(2) or (2.2), 122.5(3), 122.51(2), 122.7(2) or (3), 122.8(4), 122.9(2), 122.91(1), 125.4(3), 125.5(3), 125.6(2), 127.1(1), 127.41(3) or 210.2(3) or (4) to be paid on account of the taxpayer's tax payable under this Part for the year.

(2) Subsection (1) is deemed to have come into force on January 1, 2019.

55 (1) Paragraph 157(3)(e) of the Act is replaced by the following:

(e) 1/12 of the total of the amounts each of which is deemed by subsection 125.4(3), 125.5(3), 125.6(2), 127.1(1) or 127.41(3) to have been paid on account of the corporation's tax payable under this Part for the year.

(2) Subsection (1) is deemed to have come into force on January 1, 2019.

56 (1) Paragraph 157(3.1)(c) of the Act is replaced by the following:

(c) 1/4 of the total of the amounts each of which is deemed by subsection 125.4(3), 125.5(3), 125.6(2), 127.1(1) or 127.41(3) to have been paid on account of the corporation's tax payable under this Part for the taxation year.

(2) Subsection (1) is deemed to have come into force on January 1, 2019.

57 (1) Subsection 163(2) of the Act is amended by striking out "and" at the end of paragraph (f), by adding "and" at the end of paragraph (g) and by adding the following after paragraph (g):

(h) the amount, if any, by which

(i) the amount that would be deemed by subsection 125.6(2) to have been paid for the year by the person if that amount were calculated by reference to the information provided in the return filed for the year pursuant to that subsection

exceeds

(ii) the amount that is deemed by that subsection to be paid for the year by the person.

(2) Subsection (1) is deemed to have come into force on January 1, 2019.

58 (1) Subparagraph 164(1)(a)(ii) of the Act is replaced by the following:

(ii) before sending the notice of assessment for the year, where the taxpayer is a qualified corporation (as defined in subsection 125.4(1)), an eligible production corporation (as defined in subsection 125.5(1)) or a qualified Canadian journalism organization and an amount is deemed under subsection 125.4(3), 125.5(3) or 125.6(2) to have been paid on account of its tax payable under this Part for the year, refund all or part of any amount claimed in the return as an overpayment for the year, not exceeding the total of those amounts so deemed to have been paid, and

(2) Subsection (1) is deemed to have come into force on January 1, 2019.

59 (1) Paragraph 241(4)(d) of the Act is amended by adding the following after subparagraph (xvi):

(xvi.1) to a person employed or engaged in the service of an office or agency, of the Government of Canada or of a province, whose mandate includes the provision of assistance (as defined in subsection 125.6(1)) in respect of qualified Canadian journalism organizations, solely for the purpose of the administration or enforcement of the program under which the assistance is offered,

(xvi.2) to a body referred to in paragraph (b) of the definition *qualified Canadian journalism organization* in subsection 248(1), solely for the purpose of determining eligibility for designation under that paragraph,

(2) Subsection (1) is deemed to have come into force on January 1, 2019.

60 (1) Subsection 248(1) of the Act is amended by adding the following in alphabetical order:

qualified Canadian journalism organization, at any time, means a corporation, partnership or trust that

(a) meets the following conditions:

(i) in the case of a corporation,

(A) it is incorporated under the laws of Canada or a province,

(B) the chairperson or other presiding officer, and at least 3/4 of the directors or other similar officers, are citizens of Canada, and

(C) it is resident in Canada,

(ii) in the case of a partnership,

(A) it is formed under the laws of a province, and

(B) individuals who are citizens of Canada or persons, or partnerships, described in any of subparagraphs (i) to (iii) hold interests in the partnership

(I) representing in value at least 75% of the total value of the partnership property, and

(II) that result in at least 75% of each income or loss of the partnership from any source being included in the determination of their incomes,

- (iii) in the case of a trust,
 - (A) it is formed under the laws of a province,
 - (B) it is resident in Canada, and
- (C) if interests as a beneficiary under the trust are held by one or more persons or partnerships, at least 75% of the fair market value of all interests as a beneficiary under the trust are held by
 - (I) individuals who are citizens of Canada, or
 - (II) persons or partnerships described in any of subparagraphs (i) to (iii),
- (iv) it operates in Canada, including that its content is edited, designed and, except in the case of digital content, published in Canada,
- (v) it is primarily engaged in the production of original news content which
 - (A) must be primarily focused on matters of general interest and reports of current events, including coverage of democratic institutions and processes, and
 - (B) must not be primarily focused on a particular topic such as industry-specific news, sports, recreation, arts, lifestyle or entertainment,
- (vi) it regularly employs two or more journalists who deal at arm's length with the organization in the production of its content,
- (vii) it is not significantly engaged in the production of content
 - (A) to promote the interests, or report on the activities, of an organization, an association or its members,
 - (B) for a government, Crown corporation or government agency, or
 - (C) to promote goods or services, and
- (viii) it is not a Crown corporation, municipal corporation or government agency; and

(2) Subsection (1) is deemed to have come into force on January 1, 2019.

Personal Income Tax Credit for Digital Subscriptions

61 (1) The Act is amended by adding the following after section 118.01:

Definitions

118.02 (1) The following definitions apply in this section.

digital news subscription, of an individual with a qualified Canadian journalism organization, means an agreement entered into between the individual and the qualified Canadian journalism organization, if

(a) the agreement entitles an individual to access content of the qualified Canadian journalism organization in digital form; and

(b) the qualified Canadian journalism organization is primarily engaged in the production of original written news content and is not engaged in a *broadcasting undertaking* as defined in subsection 2(1) of the *Broadcasting Act*. (*abonnement aux nouvelles numériques*)

qualifying subscription expense, for a taxation year, means the amount paid in the year for a digital news subscription of an individual with a qualified Canadian journalism organization and, for this purpose, if the digital news subscription provides access to content in non-digital form or content other than content of qualified Canadian journalism organizations, the amount considered to be paid for the digital news subscription shall not exceed

(a) the cost of a comparable digital news subscription with the qualified Canadian journalism organization that solely provides access to content of qualified Canadian journalism organizations in digital form; and

(b) if there is no such comparable digital news subscription, 1/2 of the amount actually paid. (*dépense pour abonnement admissible*)

Digital news subscription tax credit

(2) For the purpose of computing the tax payable under this Part by an individual for a taxation year that is before 2025, there may be deducted the amount determined by the formula

$$\mathbf{A} \times \mathbf{B}$$

where

A is the appropriate percentage for the year; and

B is the lesser of

(a) \$500, and

(b) the total of all amounts each of which is a qualifying subscription expense of the individual for the year.

Apportionment of credit

(3) If more than one individual is entitled to a deduction under this section for a taxation year in respect of a qualifying subscription expense, the total of all amounts so deductible shall not exceed the maximum amount that would be so deductible for the year by any one of those individuals in respect of the qualifying subscription expense, if that individual were the only individual entitled to deduct an amount for the year under this section, and if the individuals cannot agree as to what portion of the amount each can so deduct, the Minister may fix the portions.

(2) Subsection (1) applies to the 2020 and subsequent taxation years.

62 (1) Section 118.92 of the Act is replaced by the following:

Ordering of credits

118.92 In computing an individual's tax payable under this Part, the following provisions shall be applied in the following order: subsections 118(1) and (2), section 118.7, subsections 118(3) and (10) and sections 118.01, 118.02, 118.04, 118.041, 118.05, 118.06, 118.07, 118.3, 118.61, 118.5, 118.9, 118.8, 118.2, 118.1, 118.62 and 121.

(2) Subsection (1) comes into force on January 1, 2020.

63 Section 241 of the Act is amended by adding the following after subsection (3.3):

Information may be communicated

(3.4) The Minister may communicate or otherwise make available to the public, in any manner that the Minister considers appropriate, the following taxpayer information:

(a) the names of each organization with respect to which an individual can be entitled to a deduction under subsection 118.02(2); and

(b) the start and, if applicable, end of the period in which paragraph (a) applies in respect of any particular organization.

Business Investment in Zero-Emission Vehicles

64 (1) Subsection 13(7) of the Act is amended by striking out “and” at the end of paragraph (g), by adding “and” at the end of paragraph (h) and by adding the following after paragraph (h):

- (i)** if the cost to a taxpayer of a zero-emission passenger vehicle exceeds the prescribed amount,
- (ii)** the capital cost to the taxpayer of the vehicle is deemed to be equal to the prescribed amount, and
- (iii)** for the purposes of paragraph (a) of the description of F in the definition *undepreciated capital cost* in subsection (21), the proceeds of disposition of the vehicle are deemed to be the amount determined by the formula

$$A \times B/C$$

where

A is the amount that would, in the absence of this subparagraph, be the proceeds of disposition of the vehicle,

B is

- (a)** if the vehicle is disposed of to a person or partnership with which the taxpayer deals at arm's length, the capital cost to the taxpayer of the vehicle, and
- (b)** in any other case, the cost to the taxpayer of the vehicle,

C is the cost to the taxpayer of the vehicle.

(2) Subsection (1) is deemed to have come into force on Budget Day.

65 (1) The portion of subsection 20(4) of the Act before paragraph (a) is replaced by the following:

Bad debts — dispositions of depreciable property

(4) If an amount that is owing to a taxpayer as or on account of the proceeds of disposition of depreciable property (other than a timber resource property, a passenger vehicle to which paragraph 13(7)(g) applies or a zero-emission passenger vehicle to which paragraph 13(7)(i) applies) of the taxpayer of a prescribed class is established by the taxpayer to have become a bad debt in a taxation year, there may be deducted in computing the taxpayer's income for the year the lesser of

(2) Section 20 of the Act is amended by adding the following after subsection (4.1):

Bad debts — zero-emission passenger vehicles

(4.11) If an amount that is owing to a taxpayer as or on account of the proceeds of disposition of a zero-emission passenger vehicle of the taxpayer to which paragraph 13(7)(i) applies is established by the taxpayer to have become a bad debt in a taxation year, there may be deducted in computing the taxpayer's income for the year the lesser of

- (a)** the amount that would be determined by the formula in subparagraph 13(7)(i)(ii) in respect of the disposition if the amount determined for A in the formula were the amount owing to the taxpayer, and

- (b)** the amount determined by the formula

$$A - B$$

where

A is the capital cost to the taxpayer of the vehicle, and

- B is the amount that would be determined by the formula in subparagraph 13(7)(i)(ii) in respect of the disposition if the amount determined for A in the formula were the total amount, if any, realized by the taxpayer on account of the proceeds of disposition.

(3) Subsections (1) and (2) are deemed to have come into force on Budget Day.

66 (1) The portion of section 67.2 of the Act before the formula is replaced by the following:

Interest on money borrowed for certain vehicles

67.2 For the purposes of this Act, if an amount is paid or payable for a period by a person in respect of interest on borrowed money used to acquire a passenger vehicle or zero-emission passenger vehicle, or on an amount paid or payable for the acquisition of such a vehicle, then in computing the person's income for a taxation year the amount of interest so paid or payable is deemed to be the lesser of the actual amount paid or payable and the amount determined by the formula

(2) Subsection (1) is deemed to have come into force on Budget Day.

67 (1) The Act is amended by adding the following after section 67.4:

More than one owner

67.41 If a person owns a zero-emission passenger vehicle jointly with one or more other persons, any reference in paragraph 13(7)(i) to the prescribed amount and in section 67.2 to the amount of \$250 or such other amount as may be prescribed is to be read as a reference to that proportion of each of those amounts that the fair market value of the first-mentioned person's interest in the vehicle is of the fair market value of the interests in the vehicle of all those persons.

(2) Subsection (1) is deemed to have come into force on Budget Day.

68 (1) Subsection 85(1) of the Act is amended by adding the following after paragraph (e.4):

(e.5) if the property is depreciable property of a prescribed class of the taxpayer that is a zero-emission passenger vehicle to which paragraph 13(7)(i) applies and the taxpayer and the corporation do not deal at arm's length,

(i) the amount that the taxpayer and the corporation have agreed on in their election in respect of the vehicle is deemed to be an amount equal to the cost amount to the taxpayer of the vehicle immediately before the disposition, and

(ii) for the purposes of subsection 6(2), the cost to the corporation of the vehicle is deemed to be an amount equal to its fair market value immediately before the disposition;

(2) Subsection (1) is deemed to have come into force on Budget Day.

69 (1) The definition *passenger vehicle* in subsection 248(1) of the Act is replaced by the following:

passenger vehicle means an automobile

(a) acquired after June 17, 1987, other than an automobile that is acquired after that date pursuant to an obligation in writing entered into before June 18, 1987 or that is a zero-emission vehicle, or

(b) leased under a lease entered into, extended or renewed after June 17, 1987; (*voiture de tourisme*)

(2) Subsection 248(1) of the Act is amended by adding the following definitions in alphabetical order:

zero-emission passenger vehicle, of a taxpayer, means an automobile of the taxpayer that is included in Class 54 of Schedule II to the *Income Tax Regulations*; (*voiture de tourisme zéro émission*)

zero-emission vehicle, of a taxpayer, means a motor vehicle that

- (a) is a plug-in hybrid with a battery capacity of at least 15 kWh or is fully
 - (i) electric, or
 - (ii) powered by hydrogen,
- (b) is acquired, and becomes available for use, by the taxpayer on or after Budget Day and before 2028, and
- (c) is not a vehicle
 - (i) that has been used, or acquired for use, for any purpose before it was acquired by the taxpayer, or
 - (ii) in respect of which
 - (A) the taxpayer has, at any time, made an election under subsection 1103(2j) of the *Income Tax Regulations*,
 - (B) assistance has been paid by the Government of Canada under a prescribed program, or
 - (C) an amount has been deducted under paragraph 20(1)(a) or subsection 20(16) by another person or partnership. (*véhicule zéro émission*)

(3) Subsections 248(17) and (17.1) of the Act are replaced by the following:

Application of subsection (16) to certain vehicles and aircraft

(17) If the input tax credit of a taxpayer under Part IX of the *Excise Tax Act* in respect of a passenger vehicle, zero-emission passenger vehicle or aircraft is determined with reference to subsection 202(4) of that Act, subparagraphs (16)(a)(i) to (iii) are to be read as they apply in respect of the vehicle or aircraft, as the case may be, as follows:

- “(i) at the beginning of the first taxation year or fiscal period of the taxpayer commencing after the end of the taxation year or fiscal period, as the case may be, in which the goods and services tax in respect of such property was considered for the purposes of determining the input tax credit to be payable, if the tax was considered for the purposes of determining the input tax credit to have become payable in the reporting period, or
- “(ii) if no such tax was considered for the purposes of determining the input tax credit to have become payable in the reporting period, at the end of the reporting period; or”.

Application of subsection (16.1) to certain vehicles and aircraft

(17.1) If the input tax refund of a taxpayer under *An Act respecting the Québec sales tax*, R.S.Q., c. T-0.1, in respect of a passenger vehicle, zero-emission passenger vehicle or aircraft is determined with reference to section 252 of that Act, subparagraphs (16.1)(a)(i) to (iii) are to be read as they apply in respect of the vehicle or aircraft, as the case may be, as follows:

- “(i) at the beginning of the first taxation year or fiscal period of the taxpayer that begins after the end of the taxation year or fiscal period, as the case may be, in which the Quebec sales tax in respect of such property was considered for the purposes of determining the input tax refund to be payable, if the tax was considered for the purposes of determining the input tax refund to have become payable in the reporting period, or
- “(ii) if no such tax was considered for the purposes of determining the input tax refund to have become payable in the reporting period, at the end of the reporting period; or”.

(4) Subsections (1) to (3) are deemed to have come into force on Budget Day.

70 (1) Paragraph 1100(1)(a) of the Regulations is amended by striking out “and” at the end of subparagraph (xxxviii) and by adding the following after subparagraph (xxxix):

- (xi) of Class 54, 30 per cent, and

(xli) of Class 55, 40 per cent,

(2) Subsection 1100(2) of the Regulations is amended by incorporating the following into the formula contained in the Notice of Ways and Means Motion to amend the *Income Tax Act* and the *Income Tax Regulations* tabled in the House of Commons on November 21, 2018:

$$X(Y - Z)$$

where

X is

(a) if the class is Class 54

- (i) 2 1/3, in respect of property that becomes available for use before 2024,
- (ii) 1 1/2, in respect of property that becomes available for use in 2024 or 2025, and
- (iii) 5/6, in respect of property that becomes available for use after 2025, and

(b) if the class is Class 55

- (i) 1 1/2, in respect of property that becomes available for use before 2024,
- (ii) 7/8, in respect of property that becomes available for use in 2024 or 2025, and
- (iii) 3/8, in respect of property that becomes available for use after 2025;

Y is the total of all amounts each of which is an amount included, in respect of the class, under element A of the definition *undepreciated capital cost* in subsection 13(21) of the Act in respect of a property that became available for use by the taxpayer in the year; and

Z is the total of all amounts each of which is an amount included, in respect of the class, under element F of that definition in respect of property disposed of in the year.

71 (1) The portion of subsection 1102(14) of the Regulations before paragraph (a) is replaced by the following:

(14) Subject to subsections (14.11) to (14.13), for the purposes of this Part and Schedule II, if a property is acquired by a taxpayer

(2) Section 1102 of the Regulations is amended by adding the following after subsection (14.12):

(14.13) Subsection (14) does not apply to an acquisition of property by a taxpayer from a person in respect of which the property is a zero-emission vehicle included in Class 54 or 55.

(3) Section 1102 of the Regulations is amended by adding the following after subsection (25):

(26) For the purpose of clause (c)(ii)(B) of the definition *zero-emission vehicle* in subsection 248(1) of the Act, the federal purchase incentive described in the budget documents tabled by the Minister of Finance on Budget Day is a prescribed program.

(4) Subsections (1) to (3) are deemed to have come into force on Budget Day.

72 (1) Section 1103 of the Regulations is amended by adding the following after subsection (2i):

(2j) A taxpayer may, in its return of income filed with the Minister on or before its filing-due date for the taxation year in which a property is acquired, elect not to include the property in Class 54 or 55 in Schedule II, as the case may be.

(2) Subsection (1) is deemed to have come into force on Budget Day.

73 (1) Section 7307 of the Regulations is amended by adding the following after subsection (1):

(1.1) For the purposes of paragraph 13(7)(i) of the Act, the amount prescribed in respect of a zero-emission passenger vehicle of a taxpayer is the amount determined by the formula

$$A + B$$

where

A is \$55,000; and

B is the sum that would have been payable in respect of federal and provincial sales taxes on the acquisition of the vehicle if it had been acquired by the taxpayer at a cost equal to A, before the application of the federal and provincial sales taxes.

(2) Subsection (1) is deemed to have come into force on Budget Day.

74 (1) Schedule II to the Regulations is amended by adding the following after Class 53:

CLASS 54

Property that is a zero-emission vehicle that is not included in Class 16 or 55.

CLASS 55

Property that is a zero-emission vehicle that would otherwise be included in Class 16.

(2) Subsection (1) is deemed to have come into force on Budget Day.

Small Business Deduction — Farming and Fishing

75 (1) The definition *specified cooperative income* in subsection 125(7) of the Act is repealed.

(2) The portion of subparagraph (a)(i) of the definition *specified corporate income* in subsection 125(7) of the Act before clause (A) is replaced by the following:

(i) the total of all amounts each of which is income (other than specified farming or fishing income of the corporation for the year) from an active business of the corporation for the year from the provision of services or property to a private corporation (directly or indirectly, in any manner whatever) if

(3) Subsection 125(7) of the Act is amended by adding the following in alphabetical order:

specified farming or fishing income, of a particular corporation for a taxation year, means income of the particular corporation (other than an amount included in the particular corporation's income under subsection 135(7)), if

(a) the income is from the sale of the farming products or fishing catches of the particular corporation's farming or fishing business to another corporation, and

(b) the particular corporation deals at arm's length with the other corporation; (*revenu d'agriculture ou de pêche déterminé*)

(4) Subsections (1) to (3) apply to taxation years that begin after March 21, 2016. Any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year that ends before Budget Day that would, in the absence of this subsection, be precluded because of subsections 152(4) to (5) of the Act is to be made to the extent necessary to take into account subsections (1) to (3).

Scientific Research and Experimental Development Program

76 (1) Paragraph 87(2)(j.6) of the Act is replaced by the following:

Continuing corporation

(j.6) for the purposes of paragraphs 12(1)(t) and (x), subsections 12(2.2) and 13(7.1), (7.4) and (24), paragraphs 13(27)(b) and (28)(c), subsections 13(29) and 18(9.1), paragraphs 20(1)(e), (e.1) and (hh), sections 20.1 and 32,

paragraph 37(1)(c), subsection 39(13), subparagraphs 53(2)(c)(vi) and (h)(ii), paragraph 53(2)(s), subsections 53(2.1), 66(11.4), 66.7(11) and 127(10.2), section 139.1, subsection 152(4.3), the determination of D in the definition *undepreciated capital cost* in subsection 13(21) and the determination of L in the definition *cumulative Canadian exploration expense* in subsection 66.1(6), the new corporation is deemed to be the same corporation as, and a continuation of, each predecessor corporation;

(2) Paragraph 87(2)(oo) of the Act is repealed.

(3) Subsections (1) and (2) apply to taxation years that end on or after Budget Day.

77 (1) Paragraph 88(1)(e.8) of the Act is repealed.

(2) Subsection (1) applies to taxation years that end on or after Budget Day.

78 (1) Subsection 127(10.2) of the Act is replaced by the following:

Expenditure limit

(10.2) For the purpose of subsection (10.1), a particular corporation's expenditure limit for a particular taxation year is the amount determined by the formula

$$\$3 \text{ million} \times (\$40 \text{ million} - A) / \$40 \text{ million}$$

where

A is

(a) nil, if the following amount is less than or equal to \$10 million:

(i) if the particular corporation is not associated with any other corporation in the particular taxation year, the amount that is its taxable capital employed in Canada (within the meaning assigned by section 181.2 or 181.3) for its immediately preceding taxation year, and

(ii) if the particular corporation is associated with one or more other corporations in the particular taxation year, the amount that is the total of all amounts, each of which is the taxable capital employed in Canada (within the meaning assigned by section 181.2 or 181.3) of the particular corporation for its, or of one of the other corporations for its, last taxation year that ended in the last calendar year that ended before the end of the particular taxation year, and

(b) in any other case, the lesser of \$40 million and the amount by which the amount determined under subparagraph (a)(i) or (ii), as the case may be, exceeds \$10 million.

(2) Subsection 127(10.6) of the Act is amended by adding "and" at the end of paragraph (a), by striking out "and" at the end of paragraph (b) and by repealing paragraph (c).

(3) Subsections (1) and (2) apply to taxation years that end on or after Budget Day.

Canadian-Belgian Co-productions – Canada Film or Video Production Tax Credit

79 (1) Subsection 1106(3) of the Regulations is amended by striking out "and" at the end of paragraph (d), by adding "and" at the end of paragraph (e) and by adding the following after paragraph (e):

(f) the Memorandum of Understanding between the Government of Canada and the Respective Governments of the Flemish, French and German-speaking Communities of the Kingdom of Belgium concerning Audiovisual Coproduction.

(2) Subsection (1) is deemed to have come into force on March 12, 2018.

Character Conversion Transactions

80 (1) Subparagraph (b)(i) of the definition *derivative forward agreement* in subsection 248(1) of the Act is replaced by the following:

(i) revenue, income or cashflow in respect of the property over the term of the agreement, changes in the fair market value of the property over the term of the agreement, or any similar criteria in respect of the property unless

(A) the property is

(I) a *Canadian security* (in this subparagraph as defined in subsection 39(6)), or

(II) an interest in a partnership the fair market value of which is derived, in whole or in part, from a Canadian security,

(B) the purchase agreement is an agreement to acquire property from

(I) a tax-indifferent investor, or

(II) a *financial institution* (as defined in subsection 142.2(1)), and

(C) it can reasonably be considered that one of the main purposes of the series of transactions or events, or any transaction or event in the series, of which the purchase agreement is part is for all or any portion of the capital gain on a disposition of a Canadian security referred to in clause (A) — as part of the same series of transactions or events — to be attributable to amounts paid or payable on the Canadian security by the issuer of the Canadian security during the term of the purchase agreement as

(I) interest,

(II) dividends, or

(III) income of a trust other than income paid out of the taxable capital gains of the trust,

(2) Subsection (1) is deemed to have come into force on Budget Day. However, it does not apply before 2020 in respect of

(a) an agreement that is entered into after the final settlement of another derivative forward agreement (in this paragraph referred to as the “prior agreement”) if

(i) having regard to the source of the funds used to purchase the property to be sold under the agreement, it is reasonable to conclude that the agreement is a continuation of the prior agreement,

(ii) the terms of the agreement and the prior agreement are substantially similar,

(iii) the final settlement date under the agreement is before 2020,

(iv) subsection (1) does not apply to the prior agreement, and

(v) the notional amount of the agreement is at all times less than or equal to the amount determined by the formula

$$(A + B + C + D + E) - (F + G)$$

where

A is the notional amount of the agreement when it is entered into,

B is the total of all amounts each of which is an increase in the notional amount of the agreement, at or before that time, that is attributable to the underlying interest,

- C is the amount of the taxpayer's cash on hand immediately before Budget Day that was committed, before Budget Day, to be invested under the agreement,
 - D is the total of all amounts each of which is an increase, at or before that time, in the notional amount of the agreement that is attributable to the final settlement of another derivative forward agreement if subsection (1) does not apply to the other agreement,
 - E is the lesser of
 - (A) either
 - (I) if the prior agreement was entered into before Budget Day, the amount, if any, by which the amount determined under subparagraph (i) of the description of F in paragraph (b) for the prior agreement immediately before it was finally settled exceeds the total determined under subparagraph (ii) of the description of F in paragraph (b) for the prior agreement immediately before it was finally settled, or
 - (II) in any other case, the amount, if any, by which the amount determined under this clause for the prior agreement immediately before it was finally settled exceeds the total determined under clause (B) for the prior agreement immediately before it was finally settled, and
 - (B) the total of all amounts each of which is an increase in the notional amount of the agreement before 2020 that is not otherwise described in this formula,
 - F is the total of all amounts each of which is a decrease in the notional amount of the agreement, at or before that time, that is attributable to the underlying interest, and
 - G is the total of all amounts each of which is the amount of a partial settlement of the agreement, at or before that time, to the extent that it is not reinvested in the agreement; or
- (b) an agreement that is entered into before Budget Day, unless at any time on or after Budget Day, the notional amount of the agreement exceeds the amount determined by the formula

$$(A + B + C + D + E + F) - (G + H)$$

where

- A is the notional amount of the agreement immediately before Budget Day,
- B is the total of all amounts each of which is an increase in the notional amount of the agreement, on or after Budget Day and at or before that time, that is attributable to the underlying interest,
- C is the amount of the taxpayer's cash on hand immediately before Budget Day that was committed, before Budget Day, to be invested under the agreement,
- D is the amount, if any, of an increase, on or after Budget Day and at or before that time, in the notional amount of the agreement as a consequence of the exercise of an over-allotment option granted before Budget Day,
- E is the total of all amounts each of which is an increase, on or after Budget Day and at or before that time, in the notional amount of the agreement that is attributable to the final settlement of another derivative forward agreement if subsection (1) does not apply to the other agreement,
- F is the lesser of
 - (i) 5% of the notional amount of the agreement immediately before Budget Day, and
 - (ii) the total of all amounts each of which is an increase in the notional amount of the agreement on or after Budget Day and before 2020 that is not otherwise described in this formula,
- G is the total of all amounts each of which is a decrease in the notional amount of the agreement, on or after Budget Day and at or before that time, that is attributable to the underlying interest, and

H is the total of all amounts each of which is the amount of a partial settlement of the agreement, on or after Budget Day and at or before that time, to the extent that it is not reinvested in the agreement.

(3) For the purposes of subsection (2), the notional amount of a derivative forward agreement at any time is the fair market value at that time of the property that would be acquired under the agreement if the agreement were finally settled at that time.

Transfer Pricing Measures

Order of Application of the Transfer Pricing Rules

81 (1) Section 247 of the Act is amended by adding the following after subsection (1):

Order of applying provisions

(1.1) For the purpose of applying the provisions of this Act, the adjustments under Part XVI.1 shall be made before any other provision of the Act is applied.

(2) Subsection 247(8) of the Act is repealed.

(3) Subsections (1) and (2) apply to taxation years that begin on or after Budget Day.

Applicable Reassessment Period

82 (1) Clause 152(4)(b)(iii)(A) of the Act is replaced by the following:

(A) as a consequence of a *transaction* (as defined in subsection 247(1)) involving the taxpayer and a non-resident person with whom the taxpayer was not dealing at arm's length, or

(2) Subsection (1) applies to taxation years of a taxpayer in respect of which the *normal reassessment period* (as defined in subsection 152(3.1) of the Act) for the taxpayer ends on or after Budget Day.

Foreign Affiliate Dumping

83 (1) Subsection 17.1(2) of the Act is replaced by the following:

Acquisition of control

(2) If at any time a parent or group of parents referred to in section 212.3 acquires control of a CRIC and the CRIC was not controlled by a non-resident person, or a group of non-resident persons not dealing with each other at arm's length, immediately before that time, no amount is to be included under subsection (1) in computing the income of the CRIC in respect of a *pertinent loan or indebtedness* (as defined in subsection 212.3(11)) for the period that begins at that time and ends on the day that is 180 days after that time.

(2) Subsection (1) applies in respect of transactions or events that occur on or after Budget Day.

84 (1) The portion of paragraph 128.1(1)(c.3) of the Act before subparagraph (i) is replaced by the following:

(c.3) if the taxpayer is a corporation that was, immediately before the particular time, controlled by one non-resident person or, if no single non-resident person controlled the CRIC, a group of non-resident persons not dealing with each other at arm's length (in this section, that one non-resident person, or each member of the group of non-resident persons, as the case may be, is referred to as a "parent", and the group of non-resident persons, if any, is referred to as the "group of parents") and the taxpayer owned, immediately before the particular time, one or more shares of one or

more non-resident corporations (each of which is in this paragraph referred to as a “subject affiliate”) that, immediately after the particular time, were — or that became, as part of a transaction or event or series of transactions or events that includes the taxpayer having become resident in Canada — foreign affiliates of the taxpayer, then

(2) Subparagraph 128.1(1)(c.3)(ii) of the Act is replaced by the following:

(ii) for the purposes of Part XIII, the taxpayer is deemed, immediately after the particular time, to have paid to each parent, and each parent is deemed, immediately after the particular time, to have received from the taxpayer, a dividend in an amount determined by the formula

$$(A - B) \times C/D$$

where

- A** is the amount determined under clause (B) of the description of A in subparagraph (i),
- B** is the amount determined under clause (A) of the description of A in subparagraph (i),
- C** is the fair market value, immediately after the particular time, of the shares of the capital stock of the taxpayer that are held, directly or indirectly, by the parent, and
- D** is total of all amounts each of which is the fair market value, immediately after the particular time, of the shares of the capital stock of the taxpayer that are held, directly or indirectly, by a parent.

(3) Subsections (1) and (2) apply in respect of transactions or events that occur on or after Budget Day.

85 (1) The portion of paragraph 212.3(1)(b) of the Act before clause (i)(A) is replaced by the following:

(b) the CRIC or an other Canadian corporation is immediately after the investment time, or becomes after the investment time and as part of a transaction or event or series of transactions or events that includes the making of the investment, controlled by one non-resident person or, if no single non-resident person controls the CRIC, by a group of non-resident persons not dealing with each other at arm's length (in this section, that one non-resident person, or each member of the group of non-resident persons, as the case may be, is referred to as a “parent”, and the group of non-resident persons, if any, is referred to as the “group of parents”), and any of the following conditions is satisfied:

(i) if, at the investment time, a parent owned all shares of the capital stock of the CRIC and the other Canadian corporation, if applicable, that are owned — determined without reference to paragraph (25)(b) in the case of partnerships referred to in this subparagraph and as if all rights referred to in paragraph 251(5)(b), of the parent, each person that does not deal at arm's length with the parent and all of those partnerships, were immediate and absolute and the parent and each of the other persons and partnerships had exercised those rights at the investment time — by the parent, persons that are not dealing at arm's length with the parent and partnerships of which the parent or a non-resident person that is not dealing at arm's length with the parent is a member (other than a limited partner within the meaning assigned by subsection 96(2.4)), the parent would own shares of the capital stock of the CRIC or the other Canadian corporation that

(2) Paragraph 212.3(2)(a) of the Act is replaced by the following:

(a) for the purposes of this Part and subject to subsections (3) and (7), the CRIC is deemed to have paid to each parent, and each parent is deemed to have received from the CRIC, at the dividend time, a dividend in an amount determined by the formula

$$A \times B/C$$

where

A is the total of all amounts each of which is the portion of the fair market value at the investment time of any property (not including shares of the capital stock of the CRIC) transferred, any obligation assumed or incurred, or any benefit otherwise conferred, by the CRIC, or of any property transferred to the CRIC which transfer results in the reduction of an amount owing to the CRIC, that can reasonably be considered to relate to the investment,

B is

- (i) if there is one parent, one, and
 - (ii) if there is a group of parents, the fair market value at the dividend time of the shares of the capital stock of the CRIC that are held, directly or indirectly, by the parent, and
- C is
- (i) if there is one parent, one, and
 - (ii) if there is a group of parents, the total of all amounts each of which is the fair market value at the dividend time of the shares of the capital stock of the CRIC that are held, directly or indirectly, by a parent; and

(3) Subsection 212.3(3) of the Act is replaced by the following:

Dividend substitution election

(3) If a CRIC (or a CRIC and a corporation that is a qualifying substitute corporation in respect of the CRIC at the dividend time) and a parent (or a parent and another non-resident person that at the dividend time is related to the parent) jointly elect in writing under this subsection in respect of an investment, and the election is filed with the Minister on or before the filing-due date of the CRIC for its taxation year that includes the dividend time, then the dividend that would, in the absence of this subsection, be deemed under paragraph (2)(a) to have been paid by the CRIC to the parent and received by the parent from the CRIC is deemed to have instead been

- (a) paid by the CRIC or the qualifying substitute corporation, as agreed on in the election; and
- (b) paid to, and received by, the parent or the other non-resident person, as agreed on in the election.

(4) Subsection 212.3(4) of the Act is replaced by the following:

Definitions

(4) The following definitions apply in this section.

cross-border class, in respect of an investment, means a class of shares of the capital stock of a CRIC or qualifying substitute corporation if, immediately after the dividend time in respect of the investment,

- (a) a parent, or a non-resident person that does not deal at arm's length with a parent, owns at least one share of the class; and
- (b) no more than 30% of the issued and outstanding shares of the class are owned by one or more persons resident in Canada that do not deal at arm's length with a parent. (*catégorie transfrontalière*)

dividend time, in respect of an investment, means

- (a) if the CRIC is controlled by a parent or group of parents at the investment time, the investment time; and
- (b) in any other case, the earlier of
 - (i) the first time, after the investment time, at which the CRIC is controlled by a parent or group of parents, as the case may be, and
 - (ii) the day that is one year after the day that includes the investment time. (*moment du dividende*)

qualifying substitute corporation, at any time in respect of a CRIC, means a corporation resident in Canada

- (a) that is, at that time, controlled by
 - (i) a parent,
 - (ii) a group of parents, or

- (iii) a non-resident person that does not deal at arm's length with a parent;
- (b) that has, at that time, an equity percentage (as defined in subsection 95(4)) in the CRIC; and
- (c) shares of the capital stock of which are, at that time, owned by a parent or another non-resident person with which the parent does not, at that time, deal at arm's length. (*société de substitution admissible*)

(5) Subsection 212.3(5.1) of the Act is replaced by the following:

Sequential investments — paragraph (10)(f)

(5.1) In the case of an investment (in this subsection referred to as the "second investment") in a subject corporation by a CRIC described in paragraph (10)(f), the amount determined for A in paragraph (2)(a) in respect of the second investment is to be reduced by the amount determined for A in paragraph (2)(a) in respect of a prior investment (in this subsection referred to as the "first investment") in the subject corporation by another corporation resident in Canada if

- (a) the first investment is an investment that is described in paragraph (10)(a) or (b) and to which paragraph (2)(a) applies;
- (b) immediately after the investment time in respect of the first investment, the other corporation is not controlled by,
 - (i) if there is one parent in respect of the CRIC, the parent, and
 - (ii) if there is a group of parents in respect of the CRIC, the group of parents; and
- (c) the other corporation becomes, after the time that is immediately after the investment time in respect of the first investment and as part of a transaction or event or series of transactions or events that includes the making of the first investment, controlled by the parent or group of parents, as the case may be, because of the second investment.

(6) The portion of paragraph 212.3(6)(a) of the Act before subparagraph (i) is replaced by the following:

- (a) a particular corporation resident in Canada that does not deal at arm's length with a parent

(7) The portion of clause 212.3(6)(a)(ii)(B) of the act before subclause (I) is replaced by the following:

(B) the increase in paid-up capital in respect of the particular class can reasonably be considered to be connected to funding provided to the particular corporation or another corporation resident in Canada (other than the corporation that issued the particular class) by a parent or a non-resident person that does not deal at arm's length with a parent, unless

(8) The portion of subparagraph 212.3(7)(a)(i) of the Act before clause (A) is replaced by the following:

- (i) the amount determined, without reference to this subsection, for A in paragraph (2)(a), is reduced by the lesser of

(9) The portion of paragraph 212.3(7)(b) of the Act before subparagraph (i) is replaced by the following:

(b) where the amount determined, without reference to this paragraph, for A in paragraph (2)(a) is equal to or greater than the total of all amounts each of which is an amount of paid-up capital immediately after the dividend time, determined without reference to this paragraph, of a cross-border class in respect of the investment, then

(10) Paragraphs 212.3(7)(c) and (d) of the Act are replaced by the following:

- (c) where paragraph (b) does not apply and there is at least one cross-border class in respect of the investment,
- (i) the amount determined, without reference to this paragraph, for A in paragraph (2)(a) is reduced to nil,

(ii) in computing, at any time after the dividend time, the paid-up capital in respect of a particular cross-border class in respect of the investment, there is to be deducted the amount, if any, that when added to the total of all amounts that are deducted under this paragraph in computing the paid-up capital of other cross-border classes, results in the greatest total reduction because of this paragraph, immediately after the dividend time, of the paid-up capital in respect of shares of cross-border classes that are owned by a parent or another non-resident person with which a parent does not, at the dividend time, deal at arm's length,

(iii) if the proportion of the shares of a particular class owned, in aggregate, by parents and non-resident persons that do not deal at arm's length with parents is equal to the proportion so owned of one or more other cross-border classes (in this subparagraph all those classes, together with the particular class, referred to as the "relevant classes"), then the proportion that the reduction under subparagraph (ii) to the paid-up capital in respect of the particular class is of the paid-up capital, determined immediately after the dividend time and without reference to this paragraph, in respect of that class is to be equal to the proportion that the total reduction under subparagraph (ii) to the paid-up capital in respect of all the relevant classes is of the total paid-up capital, determined immediately after the dividend time and without reference to this paragraph, of all the relevant classes, and

(iv) the total of all amounts each of which is an amount to be deducted under subparagraph (ii) in computing the paid-up capital of a cross-border class is to be equal to the amount by which the amount determined for A in paragraph (2)(a) is reduced under subparagraph (i); and

(d) if the amount determined for A in paragraph (2)(a) is reduced because of any of subparagraphs (a)(i), (b)(i) and (c)(i),

(i) the CRIC shall file with the Minister in prescribed manner a form containing prescribed information and the amounts of the paid-up capital, determined immediately after the dividend time and without reference to this subsection, of each class of shares that is described in paragraph (a) or that is a cross-border class in respect of the investment, the paid-up capital of the shares of each of those classes that are owned by a parent or another non-resident person that does not, at the dividend time, deal at arm's length with a parent, and the reduction under any of subparagraphs (a)(ii), (b)(ii) and (c)(ii) in respect of each of those classes, and

(ii) if the form is not filed on or before the CRIC's filing-due date for its taxation year that includes the dividend time, the CRIC is deemed to have paid to each parent, and each parent is deemed to have received from the CRIC, on the filing-due date, a dividend equal to the total of all amounts each of which is the amount of a reduction because of any of subparagraphs (a)(i), (b)(i) and (c)(i) in the amount the CRIC is deemed under paragraph (2)(a) to have paid to the parent.

(11) The portion of paragraph 212.3(11)(c) of the Act before subparagraph (i) is replaced by the following:

(c) the CRIC and each parent jointly elect in writing under this paragraph in respect of the amount owing and file the election with the Minister on or before the filing-due date of the CRIC

(12) Paragraphs 212.3(15)(a) and (b) of the Act are replaced by the following:

(a) a CRIC or a taxpayer to which paragraph 128.1(1)(c.3) applies (in this subsection referred to as the "specific corporation"), that would, in the absence of this subsection, be controlled at any time

(i) by more than one non-resident person, is deemed not to be controlled at that time by any such non-resident that controls at that time another non-resident person that controls at that time the specific corporation, unless the application of this paragraph would otherwise result in no non-resident person controlling the specific corporation, and

(ii) by a particular non-resident corporation is deemed not to be controlled at that time by the particular corporation if the particular corporation is controlled at that time by another corporation that is at that time

(A) resident in Canada, and

- (B)** not controlled by any non-resident person or group of non-resident persons not dealing with each other at arm's length; and
- (b)** a non-resident person is deemed not to be a member of a particular group of non-resident persons not dealing with each other at arm's length that controls the specific corporation if

- (i)** the non-resident person would, absent the application of this paragraph, be a member of the particular group, and
- (ii)** the non-resident person is a member of the particular group solely because it controls, or is a member of a group that controls, another member of the particular group.

(13) The portion of paragraph 212.3(16)(a) before subparagraph (i) is replaced by the following:

(a) the business activities carried on by the subject corporation and all other corporations (those other corporations in this subsection and subsection (17) referred to as the "subject subsidiary corporations") in which the subject corporation has, at the investment time, an equity percentage (as defined in subsection 95(4)) are at the investment time, and are expected to remain, on a collective basis, more closely connected to the business activities carried on in Canada by the CRIC, or by any corporation resident in Canada with which the CRIC does not, at the investment time, deal at arm's length, than to the business activities carried on by any non-resident person with which the CRIC, at the investment time, does not deal at arm's length, other than

(14) Paragraph 212.3(18)(a) of the Act is replaced by the following:

(a) the investment is described in paragraph (10)(a) or (d) and is an acquisition of shares of the capital stock, or a debt obligation, of the subject corporation

(i) from a corporation resident in Canada (in this paragraph referred to as the "disposing corporation") to which the CRIC is, immediately before the investment time, related (determined without reference to paragraph 251(5)(b)), and

(A) each shareholder of the disposing corporation immediately before the investment time is,

(I) if there is only one parent in respect of the CRIC,

1 either the CRIC or a corporation resident in Canada that is, immediately before the investment time, related to the parent, and

2 at no time that is in the period during which the series of transactions or events that includes the making of the investment occurs and that is before the investment time, dealing at arm's length (determined without reference to paragraph 251(5)(b)) with the parent or a non-resident person that participates in the series and is, at any time that is in the period and that is before the investment time, related to the parent, and

(II) if there is a group of parents in respect of the CRIC,

1 either the CRIC or a corporation resident in Canada that is, immediately before the investment time, controlled by the group of parents, and

2 at all times that are in the period during which the series of transactions or events that includes the making of the investment occurs and that are before the investment time, controlled by the group of parents, or

(B) the disposing corporation is,

(I) if there is only one parent in respect of the CRIC, at no time that is in the period and that is before the investment time, dealing at arm's length (determined without reference to paragraph 251(5)(b)) with the parent or a non-resident person that participates in the series and is, at any time that is in the period and that is before the investment time, related to the parent, and

(II) if there is a group of parents in respect of the CRIC, at all times that are in the period during which the series of transactions or events that includes the making of the investment occurs and that are before the investment time, controlled by the group of parents, or

(iii) on an amalgamation described in subsection 87(1) of two or more corporations (each of which is in this subparagraph referred to as a "predecessor corporation") to form the CRIC if all of the predecessor corporations are, immediately before the amalgamation, related to each other (determined without reference to paragraph 251(5)(b)) and

(A) either

(I) if there is only one parent in respect of the CRIC, none of the predecessor corporations are, at any time that is in the period during which the series of transactions or events that includes the making of the investment occurs and that is before the investment time, dealing at arm's length (determined without reference to paragraph 251(5)(b)) with the parent or a non-resident person that participates in the series and is, at any time that is in the period and that is before the investment time, related to the parent, or

(II) if there is a group of parents in respect of the CRIC, all of the predecessor corporations are, at all times that are in the period during which the series of transactions or events that includes the making of the investment occurs and that are before the investment time, controlled by the group of parents, or

(B) if the condition in clause (A) is not satisfied in respect of a predecessor corporation, each shareholder of that predecessor immediately before the investment time is,

(I) if there is only one parent in respect of the CRIC,

1 either the CRIC or a corporation resident in Canada that is, immediately before the investment time, related to the parent, and

2 at no time that is in the period and that is before the investment time, dealing at arm's length (determined without reference to paragraph 251(5)(b)) with the parent or a non-resident person that participates in the series and is, at any time that is in the period and that is before the investment time, related to the parent, and

(II) if there is a group of parents in respect of the CRIC,

1 either the CRIC or a corporation resident in Canada that is, immediately before the investment time, controlled by the group of parents, and

2 at all times that are in the period during which the series of transactions or events that includes the making of the investment occurs and that are before the investment time, controlled by the group of parents;

(15) The portion of paragraph 212.3(18)(c) of the Act before subparagraph (iii) is replaced by the following:

(c) the investment is an indirect acquisition referred to in paragraph (10)(f) that results from a direct acquisition of shares of the capital stock of another corporation resident in Canada

(i) from a corporation (in this paragraph referred to as the "disposing corporation") to which the CRIC is, immediately before the investment time, related (determined without reference to paragraph 251(5)(b)) and

(A) each shareholder of the disposing corporation immediately before the investment time is

(I) if there is only one parent in respect of the CRIC,

1 either the CRIC or a corporation resident in Canada that, immediately before the investment time, is related to the parent, and

2 at no time that is in the period during which the series of transactions or events that includes the making of the investment occurs and that is before the investment time, dealing at arm's length (determined without reference to paragraph 251(5)(b)) with the parent or a non-resident person that participates in the series and is, at any time that is in the period and that is before the investment time, related to the parent, and

(II) if there is a group of parents in respect of the CRIC,

1 either the CRIC or a corporation resident in Canada that is, immediately before the investment time, controlled by the group of parents, and

2 at all times that are in the period during which the series of transactions or events that includes the making of the investment occurs and that are before the investment time, controlled by the group of parents, or

(B) the disposing corporation is,

(I) if there is only one parent in respect of the CRIC, at no time that is in the period and that is before the investment time, dealing at arm's length (determined without reference to paragraph 251(5)(b)) with the parent or a non-resident person that participates in the series and is, at any time that is in the period and that is before the investment time, related to the parent, and

(II) if there is a group of parents in respect of the CRIC, at all times that are in the period during which the series of transactions or events that includes the making of the investment occurs and that are before the investment time, controlled by the group of parents, or

(ii) on an amalgamation described in subsection 87(1) of two or more corporations (each of which is in this subparagraph referred to as a "predecessor corporation") to form the CRIC, or a corporation of which the CRIC is a shareholder, if all of the predecessor corporations are, immediately before the amalgamation, related to each other (determined without reference to paragraph 251(5)(b)) and

(A) either

(I) if there is only one parent in respect of the CRIC, none of the predecessor corporations are, at any time that is in the period during which the series of transactions or events that includes the making of the investment occurs and that is before the investment time, dealing at arm's length (determined without reference to paragraph 251(5)(b)) with the parent or a non-resident person that participates in the series and is, at any time that is in the period and that is before the investment time, related to the parent, or

(II) if there is a group of parents in respect of the CRIC, all of the predecessor corporations are, at all times that are in the period during which the series of transactions or events that includes the making of the investment occurs and that is before the investment time, controlled by the group of parents, or

(B) if the condition in clause (A) is not satisfied in respect of a predecessor corporation, each shareholder of that predecessor immediately before the investment time is

(I) if there is only one parent in respect of the CRIC,

1 either the CRIC or a corporation resident in Canada that is, immediately before the investment time, related to the parent, and

2 at no time that is in the period and that is before the investment time, dealing at arm's length (determined without reference to paragraph 251(5)(b)) with the parent or a non-resident person that

participates in the series and is, at any time that is in the period and that is before the investment time, related to the parent, and

- (II) if there is a group of parents in respect of the CRIC,
 - 1 either the CRIC or a corporation resident in Canada that is, immediately before the investment time, controlled by the group of parents, and
 - 2 at all times that are in the period during which the series of transactions or events that includes the making of the investment occurs and that are before the investment time, controlled by the group of parents;

(16) Susection 212.3(21) is replaced by the following:

Persons deemed not to be related

(21) If it can reasonably be considered that one of the main purposes of one or more transactions or events is to cause two or more persons to be related to each other, or a person or group of persons to control another person, so that, in the absence of this subsection, subsection (2) would not apply because of subsection (18) to an investment in a subject corporation made by a CRIC, those persons are deemed not to be related to each other, or that person or group of persons is deemed not to control that other person, as the case may be, for the purposes of subsection (18).

(17) Section 212.3 of the Act is amended by adding the following after subsection (25):

(26) For the purposes of this section, subsection 17.1(1) (as it applies in respect of a *pertinent loan or indebtedness* as defined in subsection (11)), paragraph 128.1(1)(c.3) and subsection 219.1(2) — and for the purpose of paragraph 251(1)(a) as it applies for the purposes of those provisions — in determining, at any time, whether two persons are related to each other or whether any person is controlled by any other person or group of persons, it shall be assumed that

- (a) each trust is a corporation having a capital stock of a single class of voting shares divided into 100 issued shares;
- (b) each beneficiary under a trust owned at that time the number of issued shares of that class determined by the formula

$$A/B \times 100$$

where

- A is the fair market value at that time of the beneficiary's interest in the trust, and
- B is the total fair market value at that time of all beneficiaries' interests under the trust; and

- (c) if a beneficiary's share of the income or capital of a trust depends on the exercise by any person of, or the failure by any person to exercise, any discretionary power, the fair market value at any time of the beneficiary's interest under the trust is equal to the total fair market value at that time of all beneficiaries' interests under the trust.

(18) Subsections (1) to (17) apply in respect of transactions or events that occur on or after Budget Day.

86 (1) Paragraph 219.1(2)(b) of the Act is replaced by the following:

- (b) the other corporation is controlled, at that time, by a non-resident person or a group of non-resident persons not dealing with each other at arm's length; and

(2) Subsection (1) applies in respect of transactions or events that occur on or after Budget Day.

Cross-Border Share Lending Arrangements

87 (1) Subsection 212(2.1) of the Act is replaced by the following:

Exempt dividends

(2.1) Subsection (2) does not apply to an amount paid or credited, by a borrower, under a securities lending arrangement or a specified securities lending arrangement if

- (a)** the amount is deemed by subparagraph 260(8)(a)(ii) to be a dividend;
- (b)** the arrangement is a fully collateralized arrangement; and
- (c)** the security that is transferred or lent to the borrower under the securities lending arrangement is a share of a class of the capital stock of a non-resident corporation.

(2) Paragraph (d) of the definition *fully exempt interest* in subsection 212(3) of the Act is replaced by the following:

(d) an amount paid or payable or credited under a securities lending arrangement, or a specified securities lending arrangement, that is deemed by subparagraph 260(8)(a)(i) to be a payment made by a borrower to a lender of interest, if the arrangement is a fully collateralized arrangement, and

(i) the following conditions are met:

(A) the arrangement was entered into by the borrower in the course of carrying on a business outside Canada, and

(B) the security that is transferred or lent to the borrower under the arrangement is described in paragraph (b) of the definition *qualified security* in subsection 260(1) and issued by a non-resident issuer,

(ii) the security that is transferred or lent to the borrower under the arrangement is described in paragraph (c) of the definition *qualified security* in subsection 260(1), or

(iii) the security that is transferred or lent to the borrower under the arrangement is described in paragraph (a) or (b).

(3) Subsections (1) and (2) apply in respect of amounts paid or payable or credited on or after Budget Day.

88 (1) Subsection 248(1) of the Act is amended by adding the following in alphabetical order:

fully collateralized arrangement means a securities lending arrangement or a specified securities lending arrangement if, throughout the term of the arrangement, the borrower

(a) has provided the lender under the arrangement with money in an amount of, or securities described in paragraph (c) of the definition *qualified security* in subsection 260(1) that have a fair market value of, not less than 95% of the fair market value of the security that is transferred or lent under the arrangement, and

(b) is entitled to enjoy, directly or indirectly, the benefits of all or substantially all income derived from, and opportunity for gain in respect of, the money or securities provided; (*mécanisme entièrement garant*)

specified securities lending arrangement has the meaning assigned by subsection 260(1); (*mécanisme de prêt de valeurs mobilières déterminé*)

(2) Subsection (1) is deemed to have come into force on Budget Day.

89 (1) Section 260 of the Act is amended by adding the following after subsection (1.1):

References — borrower and lender

(1.2) For the purposes of subsections (8), (8.1), (8.2), (8.3), (8.4) and (9.1) and 212(2.1) and (3), in respect of a specified securities lending arrangement,

- (a) a reference to a borrower includes a transferee; and
- (b) a reference to a lender includes a transferor.

(2) Subsection 260(8) of the Act is replaced by the following:

Non-resident withholding tax

(8) For the purpose of Part XIII, any amount paid or credited under a securities lending arrangement or a specified securities lending arrangement by or on behalf of the borrower to the lender

- (a) as an SLA compensation payment in respect of a security that is not a qualified trust unit, is deemed
 - (i) to the extent of the amount of the interest paid in respect of the security, to be a payment made by the borrower to the lender of interest, and
 - (ii) to the extent of the amount of the dividend paid in respect of the security, to be a payment made by the borrower to the lender of a dividend payable on the security;
- (b) as an SLA compensation payment in respect of a security that is a qualified trust unit, is deemed, to the extent of the amount of the underlying payment to which the SLA compensation payment relates, to be an amount paid by the trust and having the same character and composition as the underlying payment; and
- (c) as, on account of, in lieu of payment of or in satisfaction of, a fee for the use of the security is deemed to be a payment of interest made by the borrower to the lender.

(3) The portion of subsection 260(8.1) of the Act before paragraph (a) is replaced by the following:

Deemed fee for borrowed security

(8.1) For the purpose of paragraph (8)(c), if under a securities lending arrangement or a specified securities lending arrangement the borrower has at any time provided the lender with money, either as collateral or consideration for the security, and the borrower does not, under the arrangement, pay or credit a reasonable amount to the lender as, on account of, in lieu of payment of or in satisfaction of, a fee for the use of the security, the borrower is deemed to have, at the time that an identical or substantially identical security is or can reasonably be expected to be transferred or returned to the lender, paid to the lender under the arrangement an amount as a fee for the use of the security equal to the amount, if any, by which

(4) Subsection 260(8.2) of the Act is replaced by the following:

Effect for tax treaties — interest

(8.2) In applying subparagraph (8)(a)(i), if a securities lending arrangement or specified securities lending arrangement is a fully collateralized arrangement, any SLA compensation payment deemed to be a payment made by the borrower to the lender of interest is deemed for the purposes of any tax treaty to be payable on the security.

(5) Section 260 of the Act is amended by adding the following after subsection (8.2):

Effect for tax treaties — dividend

(8.3) In applying subparagraph (8)(a)(ii), if the security is a share of a class of the capital stock of a corporation resident in Canada (in this subsection referred to as the “Canadian share”), for the purposes of determining the rate of tax that Canada may impose on a dividend because of the dividend article of a tax treaty,

- (a) any SLA compensation payment deemed to be a payment made by the borrower to the lender of a dividend is deemed to be paid by the issuer of the Canadian share and not by the borrower;
- (b) the lender is deemed to be the beneficial owner of the Canadian share; and

(c) the shares of the capital stock of the issuer owned by the lender are deemed to give it less than 10% of the votes that could be cast at an annual meeting of the shareholders of the issuer and have less than 10% of the fair market value of all of the issued and outstanding shares of the capital stock of the issuer, if

(i) the securities lending arrangement or the specified securities lending arrangement is not a fully collateralized arrangement, and

(ii) the borrower and the lender are not dealing at arm's length.

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(8.4) In applying subparagraph (8)(a)(ii), if the security is a share of a class of the capital stock of a non-resident corporation, for the purposes of determining the rate of tax that Canada may impose on a dividend because of the dividend article of a tax treaty, the shares of the capital stock of the borrower owned by the lender are deemed to give it less than 10% of the votes that could be cast at an annual meeting of the shareholders of the borrower, and the lender is deemed to hold less than 10% of the fair market value of all of the issued and outstanding shares of the capital stock of the borrower if

(a) the securities lending arrangement or the specified securities lending arrangement is not a fully collateralized arrangement; and

(b) the borrower and the lender are not dealing at arm's length.

(6) Subsection 260(9.1) of the Act is replaced by the following:

Non-arm's length compensation payment

(9.1) For the purpose of Part XIII, if the lender under a securities lending arrangement or a specified securities lending arrangement is not dealing at arm's length with either the borrower under the arrangement or the issuer of the security that is transferred or lent under the arrangement, or both, and subsection (8) deems an amount to be a payment of interest by a person to the lender, the lender is deemed, in respect of that payment, not to be dealing at arm's length with that person.

(7) Subsection (1) is deemed to have come into force on Budget Day.

(8) Subsections (2) to (6) apply in respect of amounts paid or credited as SLA compensation payments on or after Budget Day. However, subsections (2) to (6) do not apply in respect of amounts paid or credited as SLA compensation payments on or after Budget Day and before October 2019, if they are pursuant to a written arrangement entered into before Budget Day.

Notice of Ways and Means Motion to amend the Excise Tax Act

That it is expedient to amend the *Excise Tax Act* as follows:

GST/HST Health Measures

Human Ova and *In Vitro* Embryos

1 (1) Part I of Schedule VI to the Excise Tax Act is amended by adding the following after section 5:

6 A supply of an *ovum*, as defined in section 3 of the Assisted Human Reproduction Act.

(2) Subsection (1) is deemed to have come into force on the day after Budget Day.

2 (1) Schedule VII to the Act is amended by adding the following after section 12:

13 *In vitro embryos*, as defined in section 3 of the Assisted Human Reproduction Act.

(2) Subsection (1) is deemed to have come into force on the day after Budget Day.

3 (1) Part I of Schedule X to the Act is amended by adding the following after section 26:

27 *In vitro embryos*, as defined in section 3 of the Assisted Human Reproduction Act.

(2) Subsection (1) is deemed to have come into force on the day after Budget Day.

Foot Care Devices Supplied on the Order of a Podiatrist or Chiropodist

4 (1) Paragraphs (a) and (b) of the definition *specified professional* in section 1 of Part II of Schedule VI to the Act are replaced by the following:

(a) in respect of a supply included in any of sections 23, 24.1 and 35,

(i) a person that is entitled under the laws of a province to practise the profession of medicine, physiotherapy, occupational therapy, chiropody or podiatry, or

(ii) a registered nurse, and

(b) in respect of any other supply,

(i) a person that is entitled under the laws of a province to practise the profession of medicine, physiotherapy or occupational therapy, or

(ii) a registered nurse.

(2) Subsection (1) applies to any supply made after Budget Day.

Multidisciplinary Health Care Services

5 (1) Part II of Schedule V to the Act is amended by adding the following after section 7.3:

7.4 A supply of a service if all or substantially all of the consideration for the supply is reasonably attributable to two or more particular services, each of which meets the following conditions:

(a) the particular service is rendered in the course of making the supply; and

(b) a supply of the particular service would be a supply included in any of sections 5 to 7.3, if the particular service were supplied separately.

(2) Subsection (1) applies to any supply made after Budget Day.

Business Investment in Zero-Emission Vehicles

6 (1) The definition *passenger vehicle* in subsection 123(1) of the Act is replaced by the following:

passenger vehicle means a *passenger vehicle* or a *zero-emission passenger vehicle*, as those terms are defined in subsection 248(1) of the *Income Tax Act*; (*voiture de tourisme*)

(2) Subsection (1) is deemed to have come into force on Budget Day.

7 (1) The portion of the description of A in paragraph 201(b) of the French version of the Act before subparagraph (i) is replaced by the following:

A représente la taxe qui serait payable par lui relativement à la voiture s'il l'avait acquise à l'endroit ci-après au moment donné pour une contrepartie égale au montant qui serait, selon celui des alinéas 13(7)g) à i) de la *Loi de l'impôt sur le revenu* qui est applicable relativement à la voiture, réputé être, pour l'application de l'article 13 de cette loi, le coût en capital pour un contribuable d'une voiture de tourisme à laquelle l'alinéa en cause s'applique s'il n'était pas tenu compte de l'élément B des formules figurant à l'alinéa 7307(1)b) et au paragraphe 7307(1.1) du *Règlement de l'impôt sur le revenu*:

(2) The portion of the description of A in paragraph 201(b) of the English version of the Act after subparagraph (ii) is replaced by the following:

for consideration equal to the amount that would, under whichever of paragraphs 13(7)(g) to (i) of the *Income Tax Act* is applicable in respect of the vehicle, be deemed to be, for the purposes of section 13 of that Act, the capital cost to a taxpayer of a passenger vehicle in respect of which that paragraph applies if the formulae in paragraph 7307(1)(b) and subsection 7307(1.1) of the *Income Tax Regulations* were read without reference to the description of B,

(3) Subsections (1) and (2) apply to any passenger vehicle that is acquired, imported or brought into a participating province on or after Budget Day.

8 (1) Subsection 202(1) of the Act is replaced by the following:

Improvement to passenger vehicle

202 (1) If the consideration paid or payable by a registrant for an improvement to a passenger vehicle of the registrant increases the cost to the registrant of the vehicle to an amount that exceeds the amount that would, under whichever of paragraphs 13(7)(g) to (i) of the *Income Tax Act* is applicable in respect of the vehicle, be deemed to be, for the purposes of section 13 of that Act, the capital cost to a taxpayer of a passenger vehicle in respect of which that paragraph applies if the formulae in paragraph 7307(1)(b) and subsection 7307(1.1) of the *Income Tax Regulations* were read without reference to the description of B, the tax calculated on that excess shall not be included in determining an input tax credit of the registrant for any reporting period of the registrant.

(2) Subsection (1) applies to any improvement to a passenger vehicle that is acquired, imported or brought into a participating province on or after Budget Day.

9 (1) Subparagraph (b)(ii) of the definition *imported taxable supply* in section 217 of the Act is replaced by the following:

(ii) the recipient is not acquiring the property for consumption, use or supply exclusively in the course of its commercial activities or the property is a passenger vehicle that the recipient is acquiring for use in Canada as capital property in its commercial activities and that has a capital cost to the recipient exceeding the amount deemed under any of paragraphs 13(7)(g) to (i) of the *Income Tax Act* to be the capital cost of the vehicle to the recipient for the purposes of section 13 of that Act;

(2) Subparagraph (b.01)(ii) of the definition *imported taxable supply* in section 217 of the Act is replaced by the following:

(ii) the recipient is not acquiring the property for consumption, use or supply exclusively in the course of its commercial activities or the property is a passenger vehicle that the recipient is acquiring for use in Canada as capital property in its commercial activities and that has a capital cost to the recipient exceeding the amount deemed under any of paragraphs 13(7)(g) to (i) of the *Income Tax Act* to be the capital cost of the vehicle to the recipient for the purposes of section 13 of that Act;

(3) Subparagraph (b.1)(ii) of the definition *imported taxable supply* in section 217 of the Act is replaced by the following:

(ii) the recipient is not acquiring, as the recipient of the taxable supply, the property for consumption, use or supply exclusively in the course of its commercial activities or the property is a passenger vehicle that the recipient is acquiring for use in Canada as capital property in its commercial activities and that has a capital cost to the recipient exceeding the amount deemed under any of paragraphs 13(7)(g) to (i) of the *Income Tax Act* to be the capital cost of the vehicle to the recipient for the purposes of section 13 of that Act;

(4) Subsections (1) to (3) apply in respect of supplies made on or after Budget Day.

10 (1) The portion of subsection 235(1) of the French version of the Act before the formula is replaced by the following:

Taxe nette en cas de location de voiture de tourisme

235 (1) Lorsque la taxe relative aux fournitures d'une voiture de tourisme, effectuées aux termes d'un bail, devient payable par un inscrit, ou est payée par lui sans être devenue payable, au cours de son année d'imposition, et que le total de la contrepartie des fournitures qui serait déductible dans le calcul du revenu de l'inscrit pour l'année pour l'application de la *Loi de l'impôt sur le revenu* s'il était un contribuable aux termes de cette loi et s'il n'était pas tenu compte de l'article 67.3 de cette loi, excède le montant, relatif à cette contrepartie, qui serait déductible dans le calcul du revenu de l'inscrit pour l'année pour l'application de cette loi s'il était un contribuable aux termes de cette loi et s'il n'était pas tenu compte de l'élément B des formules figurant à l'alinéa 7307(1)b), au paragraphe 7307(1.1) et à l'alinéa 7307(3)b) du *Règlement de l'impôt sur le revenu*, le montant obtenu par la formule ci-après est ajouté dans le calcul de la taxe nette de l'inscrit pour la période de déclaration indiquée :

(2) Paragraph 235(1)(b) of the English version of the Act is replaced by the following:

(b) the amount in respect of that consideration that would be deductible in computing the registrant's income for the year for the purposes of the *Income Tax Act*, if the registrant were a taxpayer under that Act and the formulae in paragraph 7307(1)(b), subsection 7307(1.1) and paragraph 7307(3)(b) of the *Income Tax Regulations* were read without référence to the description of B,

(3) Subsections (1) and (2) are deemed to have come into force on Budget Day.

Notice of Ways and Means Motion to amend the Excise Act, 2001

That it is expedient to amend the *Excise Act, 2001* as follows:

Cannabis Taxation

1 (1) The description of B in the definition *dutiable amount* in section 2 of the *Excise Act, 2001* is replaced by the following:

B is the percentage set out in paragraph 2(a) of Schedule 7, and

(2) Paragraphs (a) and (b) of the definition *low-THC cannabis product* in section 2 of the Act are replaced by the following:

(a) consisting entirely of

(i) fresh cannabis,

(ii) dried cannabis, or

(iii) oil that contains anything referred to in item 1 or 3 of Schedule 1 to the *Cannabis Act* and that is in liquid form at a temperature of $22 \pm 2^\circ\text{C}$; and

(b) any part of which does not have a maximum yield of more than 0.3% THC w/w, taking into account the potential to convert THCA into THC, as determined in accordance with the *Cannabis Act*. (*produit du cannabis à faible teneur en THC*)

(3) Section 2 of the Act is amended by adding the following in alphabetical order:

dried cannabis has the same meaning as in subsection 2(1) of the *Cannabis Act*. (*cannabis séché*)

fresh cannabis has the same meaning as in subsection 1(1) of the *Cannabis Regulations*. (*cannabis frais*)

THCA means delta-9-tetrahydrocannabinolic acid. (*ATHC*)

total THC of a cannabis product means the total quantity of THC, in milligrams, that the cannabis product could yield, taking into account the potential to convert THCA into THC, as determined in accordance with the *Cannabis Act*. (*THC total*)

(4) Subsections (1) to (3) come into force, or are deemed to have come into force, on May 1, 2019.

2 (1) Section 172 of the Act is replaced by the following:

Application of interest provisions

172 For greater certainty, if an amendment to this Act, or an amendment or enactment that relates to this Act, comes into force on, or applies as of, a particular day that is before the day on which the amendment or enactment is assented to or promulgated, the provisions of this Act and of the *Customs Act*, as the case may be, that relate to the calculation and payment of interest apply in respect of the amendment or enactment as though it had been assented to or promulgated on the particular day.

(2) Subsection (1) comes into force, or is deemed to have come into force, on May 1, 2019.

3 (1) Paragraph (b) of the description of A in section 233.1 of the Act is replaced by the following:

(b) the amount obtained by multiplying the fair market value, at the time the contravention occurred, of the cannabis products to which the contravention relates by the percentage set out in paragraph 4(a) of Schedule 7, as that paragraph read at that time;

(2) Subsection (1) comes into force, or is deemed to have come into force, on May 1, 2019.

4 (1) Paragraph (b) of the description of A in section 234.1 of the Act is replaced by the following:

(b) the amount obtained by multiplying the fair market value, at the time the contravention occurred, of the cannabis products to which the contravention relates by the percentage set out in paragraph 4(a) of Schedule 7, as that paragraph read at that time;

(2) Subsection (1) comes into force, or is deemed to have come into force, on May 1, 2019.

5 (1) Subparagraphs 238.1(2)(b)(i) and (ii) of the Act are replaced by the following:

(i) the dollar amount set out in subparagraph 1(a)(i) of Schedule 7,

(ii) if the stamp is in respect of a specified province, three times the dollar amount set out in subparagraph 1(a)(i) of Schedule 7, and

(2) Subsection (1) comes into force, or is deemed to have come into force, on May 1, 2019.

6 (1) Sections 1 to 4 of Schedule 7 to the Act are replaced by the following:

1 Any cannabis product produced in Canada or imported: the amount equal to

(a) in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, the total of

(i) \$0.25 per gram of flowering material included in the cannabis product or used in the production of the cannabis product,

(ii) \$0.075 per gram of non-flowering material included in the cannabis product or used in the production of the cannabis product,

(iii) \$0.25 per viable seed included in the cannabis product or used in the production of the cannabis product, and

(iv) \$0.25 per vegetative cannabis plant included in the cannabis product or used in the production of the cannabis product; and

(b) in any other case, \$0.0025 per milligram of the total THC of the cannabis product.

2 Any cannabis product produced in Canada: the amount obtained by multiplying the dutiable amount for the cannabis product by

(a) in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, 2.5%; and

(b) in any other case, 0%.

3 Any imported cannabis product: the amount obtained by multiplying the value of the cannabis product by

(a) in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, 2.5%; and

(b) in any other case, 0%.

4 Any cannabis product taken for use or unaccounted for: the amount obtained by multiplying the fair market value of the cannabis product by

(a) in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, 2.5%; and

(b) in any other case, 0%.

(2) Subsection (1) comes into force, or is deemed to have come into force, on May 1, 2019 except that for the purpose of determining the amount of duty imposed on or after that day under subsection 158.19(2) of the Act on any cannabis product that is packaged before that day, section 2 of Schedule 7 to the Act is to be read as it did on April 30, 2019.

Draft Amendments to Various Regulations

Draft Amendments to Various Regulations

Business Investment in Zero-Emission Vehicles

Streamlined Accounting (GST/HST) Regulations

1 (1) The portion of subsection 21.3(4) of the *Streamlined Accounting (GST/HST) Regulations* before paragraph (a) is replaced by the following:

(4) For the purposes of this Part, if any of paragraphs 13(7)(g) to (i) of the *Income Tax Act* deems an amount to be the capital cost to a registrant of a passenger vehicle for the purposes of section 13 of that Act, the amount, if any, by which

(2) The description of B in paragraph 21.3(4)(b) of the Regulations is replaced by the following:

B is the amount deemed by any of paragraphs 13(7)(g) to (i) of the *Income Tax Act* to be the capital cost to the registrant of the vehicle for the purposes of section 13 of that Act,

2 Section 1 is deemed to have come into force on Budget Day.

Cannabis Taxation

Draft Excise Duties on Cannabis Regulations

3 Subparagraph 2(b)(i) of the draft *Excise Duties on Cannabis Regulations*, as published by the Minister of Finance on September 17, 2018, is replaced by the following:

(i) that contains a known quantity or concentration of a chemical component of cannabis, such as cannabidiol, cannabidiolic acid, THCA or THC,

4 (1) Subparagraph 3(1)(a)(i) of the draft Regulations is replaced by the following:

(i) the percentage set out in paragraph 2(a) of Schedule 1, and

(2) Paragraphs 3(1)(b) and (c) of the draft Regulations are replaced by the following:

(b) in the case of Quebec, the percentage set out in paragraph 2(a) of Schedule 2;

(c) in the case of Nova Scotia, the percentage set out in paragraph 2(a) of Schedule 3;

(3) Subparagraph 3(1)(d)(i) of the draft Regulations is replaced by the following:

(i) the percentage set out in paragraph 2(a) of Schedule 4, and

(4) Paragraph 3(1)(e) of the draft Regulations is replaced by the following:

(e) in the case of British Columbia, the percentage set out in paragraph 2(a) of Schedule 5;

(5) Subparagraph 3(1)(f)(i) of the draft Regulations is replaced by the following:

(i) the percentage set out in paragraph 2(a) of Schedule 6, and

(6) Subparagraph 3(1)(g)(i) of the draft Regulations is replaced by the following:

(i) the percentage set out in paragraph 2(a) of Schedule 7, and

(7) Subparagraph 3(1)(h)(i) of the draft Regulations is replaced by the following:

- (i)** the percentage set out in paragraph 2(a) of Schedule 8, and

(8) Subparagraph 3(1)(i)(i) of the draft Regulations is replaced by the following:

- (i)** the percentage set out in paragraph 2(a) of Schedule 9, and

(9) Paragraphs 3(1)(j) and (k) of the draft Regulations are replaced by the following:

- (j)** in the case of Yukon, the percentage set out in paragraph 2(a) of Schedule 10;

- (k)** in the case of the Northwest Territories, the percentage set out in paragraph 2(a) of Schedule 11; and

(10) Subparagraph 3(1)(l)(i) of the draft Regulations is replaced by the following:

- (i)** the percentage set out in paragraph 2(a) of Schedule 12, and

5 Sections 1 to 4 of Schedule 1 to the draft Regulations are replaced by the following:

1 Any cannabis product produced in Canada or imported: the amount equal to

- (a)** in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, the total of
 - (i)** \$0.75 per gram of flowering material included in the cannabis product or used in the production of the cannabis product,
 - (ii)** \$0.225 per gram of non-flowering material included in the cannabis product or used in the production of the cannabis product,
 - (iii)** \$0.75 per viable seed included in the cannabis product or used in the production of the cannabis product, and
 - (iv)** \$0.75 per vegetative cannabis plant included in the cannabis product or used in the production of the cannabis product; and

- (b)** in any other case, \$0.0075 per milligram of the total THC of the cannabis product.

2 Any cannabis product produced in Canada: the amount obtained by multiplying the dutiable amount for the cannabis product by

- (a)** in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, 7.5%; and
- (b)** in any other case, 0%.

3 Any imported cannabis product: the amount obtained by multiplying the value of the cannabis product by

- (a)** in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, 7.5%; and
- (b)** in any other case, 0%.

4 Any cannabis product taken for use or unaccounted for: the amount obtained by multiplying the fair market value of the cannabis product by

- (a)** in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, 7.5%; and
- (b)** in any other case, 0%.

6 Sections 1 to 4 of Schedule 2 to the draft Regulations are replaced by the following:

1 Any cannabis product produced in Canada or imported: the amount equal to

- (a)** in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, the total of
 - (i)** \$0.75 per gram of flowering material included in the cannabis product or used in the production of the cannabis product,
 - (ii)** \$0.225 per gram of non-flowering material included in the cannabis product or used in the production of the cannabis product,

(iii) \$0.75 per viable seed included in the cannabis product or used in the production of the cannabis product, and
(iv) \$0.75 per vegetative cannabis plant included in the cannabis product or used in the production of the cannabis product; and

(b) in any other case, \$0.0075 per milligram of the total THC of the cannabis product.

2 Any cannabis product produced in Canada: the amount obtained by multiplying the dutiable amount for the cannabis product by

(a) in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, 7.5%; and
(b) in any other case, 0%.

3 Any imported cannabis product: the amount obtained by multiplying the value of the cannabis product by

(a) in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, 7.5%; and
(b) in any other case, 0%.

4 Any cannabis product taken for use or unaccounted for: the amount obtained by multiplying the fair market value of the cannabis product by

(a) in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, 7.5%; and
(b) in any other case, 0%.

7 Sections 1 to 4 of Schedule 3 to the draft Regulations are replaced by the following:

1 Any cannabis product produced in Canada or imported: the amount equal to

(a) in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, the total of
(i) \$0.75 per gram of flowering material included in the cannabis product or used in the production of the cannabis product,
(ii) \$0.225 per gram of non-flowering material included in the cannabis product or used in the production of the cannabis product,
(iii) \$0.75 per viable seed included in the cannabis product or used in the production of the cannabis product, and
(iv) \$0.75 per vegetative cannabis plant included in the cannabis product or used in the production of the cannabis product; and

(b) in any other case, \$0.0075 per milligram of the total THC of the cannabis product.

2 Any cannabis product produced in Canada: the amount obtained by multiplying the dutiable amount for the cannabis product by

(a) in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, 7.5%; and
(b) in any other case, 0%.

3 Any imported cannabis product: the amount obtained by multiplying the value of the cannabis product by

(a) in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, 7.5%; and
(b) in any other case, 0%.

4 Any cannabis product taken for use or unaccounted for: the amount obtained by multiplying the fair market value of the cannabis product by

(a) in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, 7.5%; and
(b) in any other case, 0%.

8 Sections 1 to 4 of Schedule 4 to the draft Regulations are replaced by the following:

1 Any cannabis product produced in Canada or imported: the amount equal to

(a) in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, the total of

- (i) \$0.75 per gram of flowering material included in the cannabis product or used in the production of the cannabis product,
- (ii) \$0.225 per gram of non-flowering material included in the cannabis product or used in the production of the cannabis product,
- (iii) \$0.75 per viable seed included in the cannabis product or used in the production of the cannabis product, and
- (iv) \$0.75 per vegetative cannabis plant included in the cannabis product or used in the production of the cannabis product; and

(b) in any other case, \$0.0075 per milligram of the total THC of the cannabis product.

2 Any cannabis product produced in Canada: the amount obtained by multiplying the dutiable amount for the cannabis product by

- (a) in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, 7.5%; and
- (b) in any other case, 0%.

3 Any imported cannabis product: the amount obtained by multiplying the value of the cannabis product by

- (a) in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, 7.5%; and
- (b) in any other case, 0%.

4 Any cannabis product taken for use or unaccounted for: the amount obtained by multiplying the fair market value of the cannabis product by

- (a) in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, 7.5%; and
- (b) in any other case, 0%.

9 Sections 1 to 4 of Schedule 5 to the draft Regulations are replaced by the following:

1 Any cannabis product produced in Canada or imported: the amount equal to

- (a) in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, the total of
 - (i) \$0.75 per gram of flowering material included in the cannabis product or used in the production of the cannabis product,
 - (ii) \$0.225 per gram of non-flowering material included in the cannabis product or used in the production of the cannabis product,
 - (iii) \$0.75 per viable seed included in the cannabis product or used in the production of the cannabis product, and
 - (iv) \$0.75 per vegetative cannabis plant included in the cannabis product or used in the production of the cannabis product; and
- (b) in any other case, \$0.0075 per milligram of the total THC of the cannabis product.

2 Any cannabis product produced in Canada: the amount obtained by multiplying the dutiable amount for the cannabis product by

- (a) in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, 7.5%; and
- (b) in any other case, 0%.

3 Any imported cannabis product: the amount obtained by multiplying the value of the cannabis product by

- (a) in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, 7.5%; and
- (b) in any other case, 0%.

4 Any cannabis product taken for use or unaccounted for: the amount obtained by multiplying the fair market value of the cannabis product by

- (a) in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, 7.5%; and
- (b) in any other case, 0%.

10 Sections 1 to 4 of Schedule 6 to the draft Regulations are replaced by the following:

- 1 Any cannabis product produced in Canada or imported: the amount equal to
 - (a) in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, the total of
 - (i) \$0.75 per gram of flowering material included in the cannabis product or used in the production of the cannabis product,
 - (ii) \$0.225 per gram of non-flowering material included in the cannabis product or used in the production of the cannabis product,
 - (iii) \$0.75 per viable seed included in the cannabis product or used in the production of the cannabis product, and
 - (iv) \$0.75 per vegetative cannabis plant included in the cannabis product or used in the production of the cannabis product; and
 - (b) in any other case, \$0.0075 per milligram of the total THC of the cannabis product.
- 2 Any cannabis product produced in Canada: the amount obtained by multiplying the dutiable amount for the cannabis product by
 - (a) in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, 7.5%; and
 - (b) in any other case, 0%.
- 3 Any imported cannabis product: the amount obtained by multiplying the value of the cannabis product by
 - (a) in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, 7.5%; and
 - (b) in any other case, 0%.
- 4 Any cannabis product taken for use or unaccounted for: the amount obtained by multiplying the fair market value of the cannabis product by
 - (a) in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, 7.5%; and
 - (b) in any other case, 0%.

11 Sections 1 to 4 of Schedule 7 to the draft Regulations are replaced by the following:

- 1 Any cannabis product produced in Canada or imported: the amount equal to
 - (a) in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, the total of
 - (i) \$0.75 per gram of flowering material included in the cannabis product or used in the production of the cannabis product,
 - (ii) \$0.225 per gram of non-flowering material included in the cannabis product or used in the production of the cannabis product,
 - (iii) \$0.75 per viable seed included in the cannabis product or used in the production of the cannabis product, and
 - (iv) \$0.75 per vegetative cannabis plant included in the cannabis product or used in the production of the cannabis product; and
 - (b) in any other case, \$0.0075 per milligram of the total THC of the cannabis product.
- 2 Any cannabis product produced in Canada: the amount obtained by multiplying the dutiable amount for the cannabis product by
 - (a) in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, 7.5%; and
 - (b) in any other case, 0%.
- 3 Any imported cannabis product: the amount obtained by multiplying the value of the cannabis product by
 - (a) in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, 7.5%; and
 - (b) in any other case, 0%.

4 Any cannabis product taken for use or unaccounted for: the amount obtained by multiplying the fair market value of the cannabis product by

- (a) in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, 7.5%; and
- (b) in any other case, 0%.

12 Sections 1 to 4 of Schedule 8 to the draft Regulations are replaced by the following:

1 Any cannabis product produced in Canada or imported: the amount equal to

- (a) in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, the total of
 - (i) \$0.75 per gram of flowering material included in the cannabis product or used in the production of the cannabis product,
 - (ii) \$0.225 per gram of non-flowering material included in the cannabis product or used in the production of the cannabis product,
 - (iii) \$0.75 per viable seed included in the cannabis product or used in the production of the cannabis product, and
 - (iv) \$0.75 per vegetative cannabis plant included in the cannabis product or used in the production of the cannabis product; and
- (b) in any other case, \$0.0075 per milligram of the total THC of the cannabis product.

2 Any cannabis product produced in Canada: the amount obtained by multiplying the dutiable amount for the cannabis product by

- (a) in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, 7.5%; and
- (b) in any other case, 0%.

3 Any imported cannabis product: the amount obtained by multiplying the value of the cannabis product by

- (a) in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, 7.5%; and
- (b) in any other case, 0%.

4 Any cannabis product taken for use or unaccounted for: the amount obtained by multiplying the fair market value of the cannabis product by

- (a) in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, 7.5%; and
- (b) in any other case, 0%.

13 Sections 1 to 4 of Schedule 9 to the draft Regulations are replaced by the following:

1 Any cannabis product produced in Canada or imported: the amount equal to

- (a) in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, the total of
 - (i) \$0.75 per gram of flowering material included in the cannabis product or used in the production of the cannabis product,
 - (ii) \$0.225 per gram of non-flowering material included in the cannabis product or used in the production of the cannabis product,
 - (iii) \$0.75 per viable seed included in the cannabis product or used in the production of the cannabis product, and
 - (iv) \$0.75 per vegetative cannabis plant included in the cannabis product or used in the production of the cannabis product; and
- (b) in any other case, \$0.0075 per milligram of the total THC of the cannabis product.

2 Any cannabis product produced in Canada: the amount obtained by multiplying the dutiable amount for the cannabis product by

- (a) in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, 7.5%; and
- (b) in any other case, 0%.

- 3** Any imported cannabis product: the amount obtained by multiplying the value of the cannabis product by
 - (a)** in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, 7.5%; and
 - (b)** in any other case, 0%.
- 4** Any cannabis product taken for use or unaccounted for: the amount obtained by multiplying the fair market value of the cannabis product by
 - (a)** in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, 7.5%; and
 - (b)** in any other case, 0%.

14 Sections 1 to 4 of Schedule 10 to the draft Regulations are replaced by the following:

- 1** Any cannabis product produced in Canada or imported: the amount equal to
 - (a)** in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, the total of
 - (i)** \$0.75 per gram of flowering material included in the cannabis product or used in the production of the cannabis product,
 - (ii)** \$0.225 per gram of non-flowering material included in the cannabis product or used in the production of the cannabis product,
 - (iii)** \$0.75 per viable seed included in the cannabis product or used in the production of the cannabis product, and
 - (iv)** \$0.75 per vegetative cannabis plant included in the cannabis product or used in the production of the cannabis product; and
 - (b)** in any other case, \$0.0075 per milligram of the total THC of the cannabis product.
- 2** Any cannabis product produced in Canada: the amount obtained by multiplying the dutiable amount for the cannabis product by
 - (a)** in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, 7.5%; and
 - (b)** in any other case, 0%.
- 3** Any imported cannabis product: the amount obtained by multiplying the value of the cannabis product by
 - (a)** in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, 7.5%; and
 - (b)** in any other case, 0%.
- 4** Any cannabis product taken for use or unaccounted for: the amount obtained by multiplying the fair market value of the cannabis product by
 - (a)** in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, 7.5%; and
 - (b)** in any other case, 0%.

15 Sections 1 to 4 of Schedule 11 to the draft Regulations are replaced by the following:

- 1** Any cannabis product produced in Canada or imported: the amount equal to
 - (a)** in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, the total of
 - (i)** \$0.75 per gram of flowering material included in the cannabis product or used in the production of the cannabis product,
 - (ii)** \$0.225 per gram of non-flowering material included in the cannabis product or used in the production of the cannabis product,
 - (iii)** \$0.75 per viable seed included in the cannabis product or used in the production of the cannabis product, and
 - (iv)** \$0.75 per vegetative cannabis plant included in the cannabis product or used in the production of the cannabis product; and
 - (b)** in any other case, \$0.0075 per milligram of the total THC of the cannabis product.

- 2** Any cannabis product produced in Canada: the amount obtained by multiplying the dutiable amount for the cannabis product by
 - (a) in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, 7.5%; and
 - (b) in any other case, 0%.
- 3** Any imported cannabis product: the amount obtained by multiplying the value of the cannabis product by
 - (a) in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, 7.5%; and
 - (b) in any other case, 0%.
- 4** Any cannabis product taken for use or unaccounted for: the amount obtained by multiplying the fair market value of the cannabis product by
 - (a) in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, 7.5%; and
 - (b) in any other case, 0%.

16 Sections 1 to 4 of Schedule 12 to the draft Regulations are replaced by the following:

- 1** Any cannabis product produced in Canada or imported: the amount equal to
 - (a) in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, the total of
 - (i) \$0.75 per gram of flowering material included in the cannabis product or used in the production of the cannabis product,
 - (ii) \$0.225 per gram of non-flowering material included in the cannabis product or used in the production of the cannabis product,
 - (iii) \$0.75 per viable seed included in the cannabis product or used in the production of the cannabis product, and
 - (iv) \$0.75 per vegetative cannabis plant included in the cannabis product or used in the production of the cannabis product; and
 - (b) in any other case, \$0.0075 per milligram of the total THC of the cannabis product.
- 2** Any cannabis product produced in Canada: the amount obtained by multiplying the dutiable amount for the cannabis product by
 - (a) in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, 7.5%; and
 - (b) in any other case, 0%.
- 3** Any imported cannabis product: the amount obtained by multiplying the value of the cannabis product by
 - (a) in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, 7.5%; and
 - (b) in any other case, 0%.
- 4** Any cannabis product taken for use or unaccounted for: the amount obtained by multiplying the fair market value of the cannabis product by
 - (a) in the case of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds, 7.5%; and
 - (b) in any other case, 0%.

17 Sections 3 to 16 come into force, or are deemed to have come into force, on May 1, 2019 except that in applying subsection 5(2) of the draft Regulations for the purpose of determining the amount of duty imposed on or after that day under subsection 158.2(1) of the *Excise Act, 2001* on any cannabis product that is packaged before that day, Schedules 1 to 12 of the draft Regulations are to be read as they did on April 30, 2019.



TRADE-BASED MONEY LAUNDERING OVERVIEW

Presented to the
Commission of Inquiry into Money Laundering in British Columbia

April 1, 2020

Delivered by

Royal Canadian Mounted Police
Financial Transactions and Reports Analysis Centre
Canada Border Services Agency

What is TBML?



3 Main Money Laundering Methods	
1. Financial Institutions	Paper trail, high AML controls
2. Bulk Cash	High risk of detection at borders or domestically
3. Trade	Low risk, high reward

Trade-based money laundering is the process of disguising illicit financial flows and moving their value through the use of trade transactions in an attempt to legitimize their origins.

(i.e. transferring value through trade)

Basic Schemes



Transferring goods (or providing services) to finance illicit product / activities

- Vehicles to Africa for illicit narcotics
- Sale of antiquities / oil to finance terrorism
- Consulting services

Moderately Complex Schemes



Various forms of customs fraud:

- **Misrepresentation of price or quantity** (ex. timber, wine, fruit)
- **Misrepresentation of quality or classification** (ex. gold hardware, granite)
- **Multiple invoicing / phantom shipments** (ex. voided car purchases)
- **Misidentifying final recipient / destination of good** (ex. dual-use goods, nominee)

Complex Schemes



Customs Fraud + ...

- Layering
- Shell companies
- Offshore accounts
- Nominees
- Legal Trusts
- Third-party payment methods / Freight-forwarders
- Transit through FTZs or non-cooperative jurisdictions
- Use of crypto-currencies
- Co-mingling with real estate / casinos

Key Features



- Requires a complicit seller / buyer or dual-presence
- Includes goods AND services (ex. consulting)
- TBML schemes often intersect with capital flight, sanctions evasion, tax/duty evasion, and/or fraudulent tax (GST/HST) refunds
- Often involves easily liquidated / distributed goods

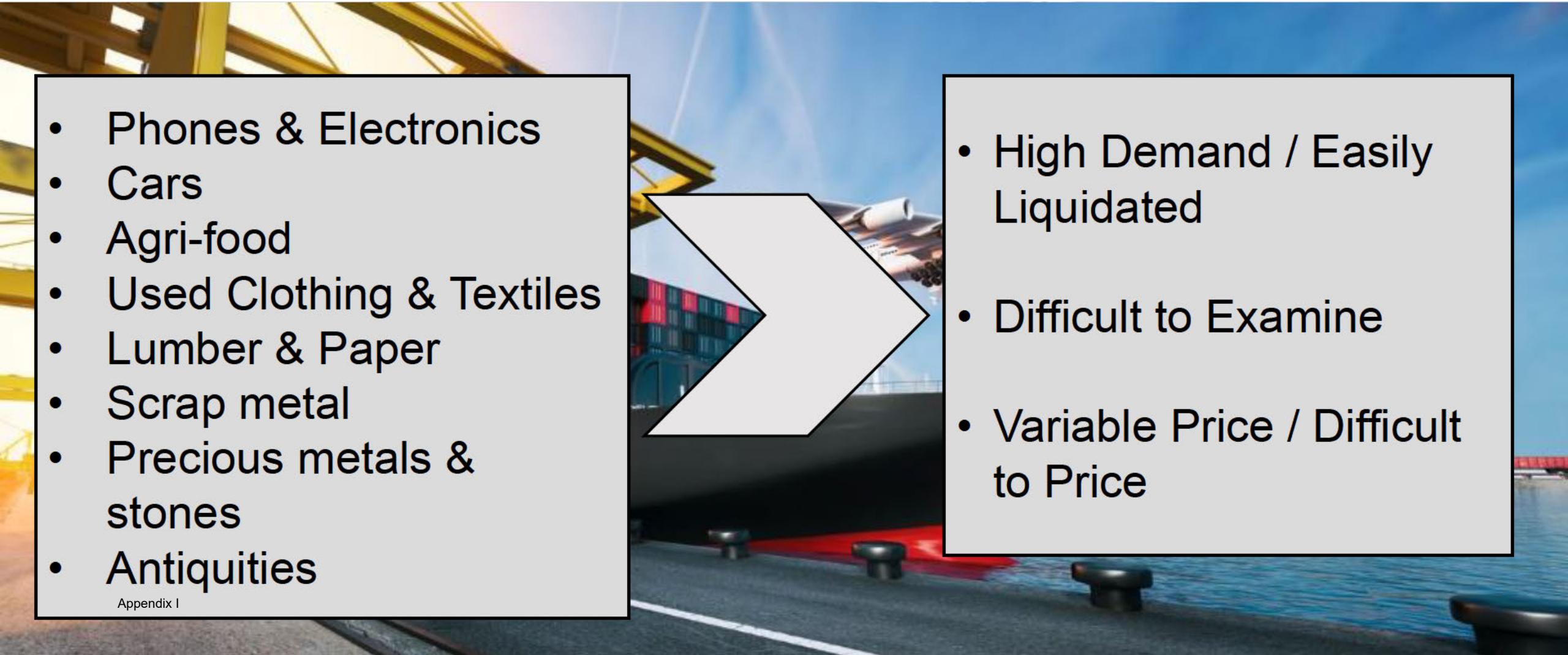
Key Commodities



- Phones & Electronics
- Cars
- Agri-food
- Used Clothing & Textiles
- Lumber & Paper
- Scrap metal
- Precious metals & stones
- Antiquities

Appendix I

- High Demand / Easily Liquidated
- Difficult to Examine
- Variable Price / Difficult to Price



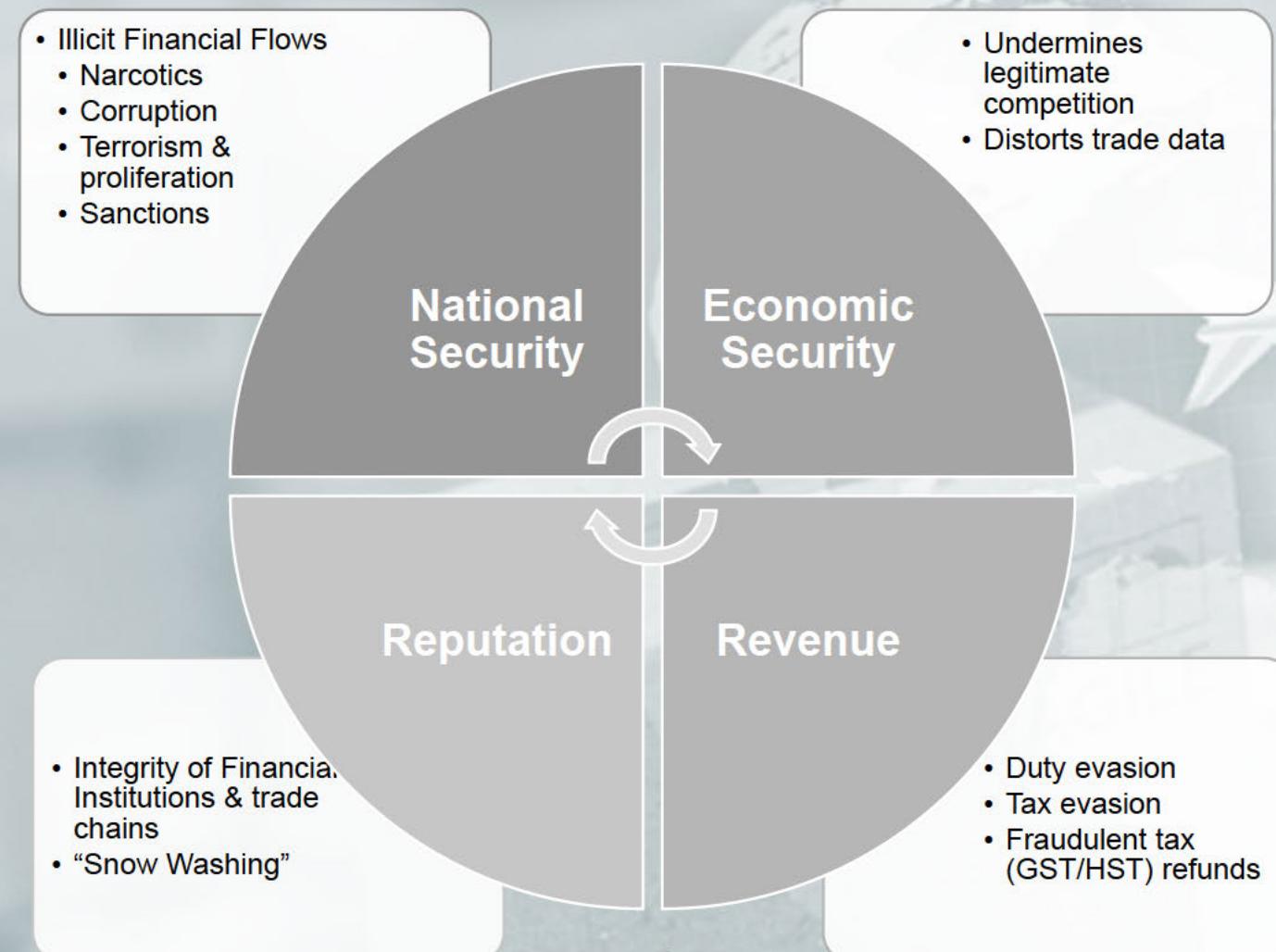
International Context



- TBML easily concealed in enormous volumes of global trade
 - % of goods examined by customs authorities is small
- Some experts proclaim it to be the largest money laundering method in the world, but also the least known and understood.
- By some estimates, the customs fraud that underlies TBML accounts for over 80% of illicit financial flows from developing nations
- May cost the global economy as much as 1 to 7 percent of annual Gross Domestic Product (GDP) each year.



Harms to Canada



Intersecting Mandates



FINANCIAL

- **FINTRAC**

- Compliance Operations - Financial Reporting
- Intelligence Operations – FININT to support investigations relevant to ML/TF
- Strategic Intelligence and Policy Operations – Educating public, regime partners and decision makers

TRADE

- **CBSA**

- Supports public safety and national security priorities by ensuring that all goods imported or exported comply with program legislation
- Identifies and investigates the customs fraud offences that allows TBML to occur

CRIMINAL

- **RCMP**

- Promote public safety by dismantling, deterring and prosecuting organized crime and protecting Canada's economic and financial integrity
- Part of mandate and strategy to respond to trans national organized crime

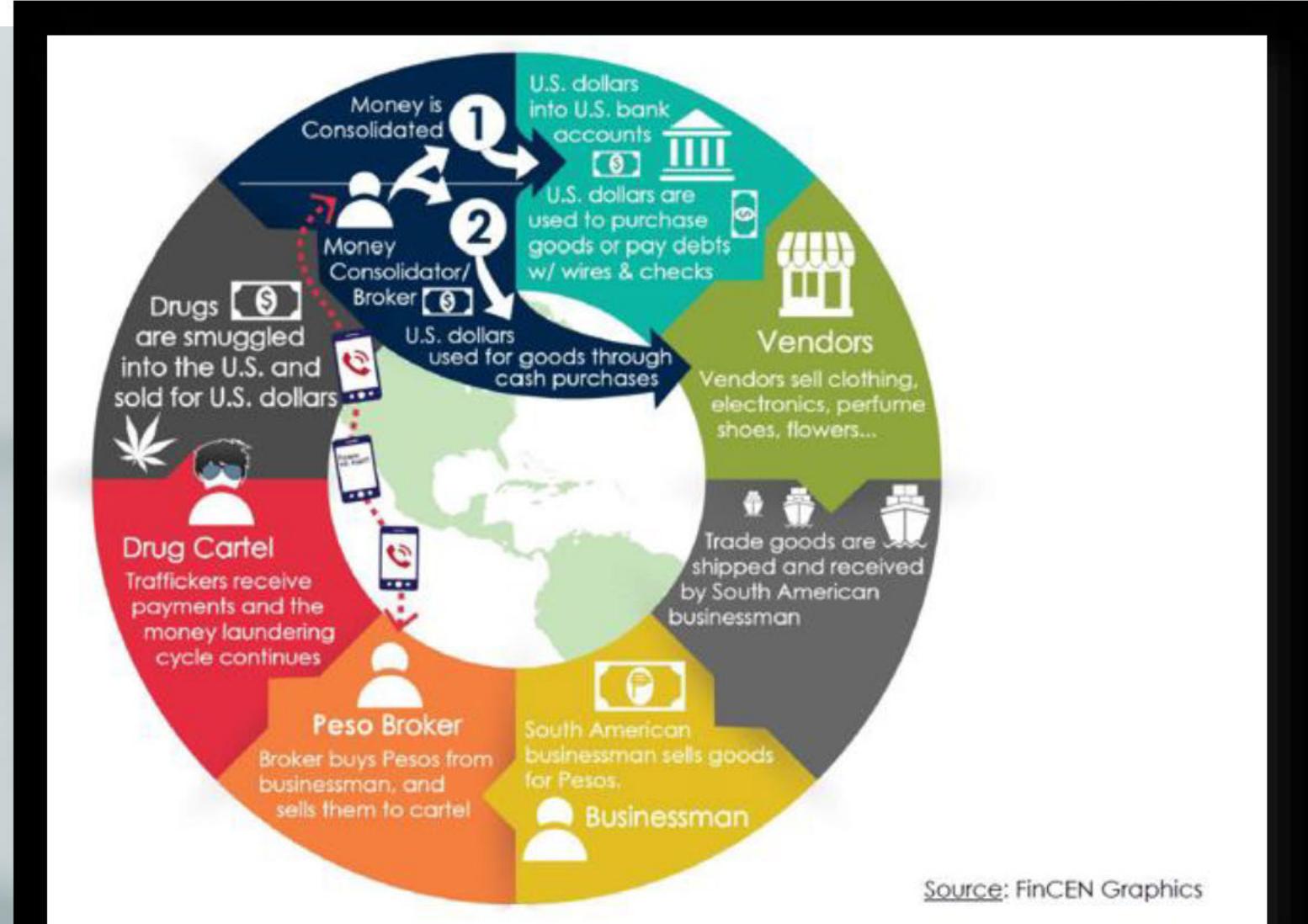
TAX

Appendix I

- **CRA**

- Investigates potential criminal violations of the Acts administered by the CRA, focusing on promoters of sophisticated and organized tax schemes, international tax evasion, and working jointly with law enforcement on money laundering.

Key Typology 1: Black Market Peso Exchange

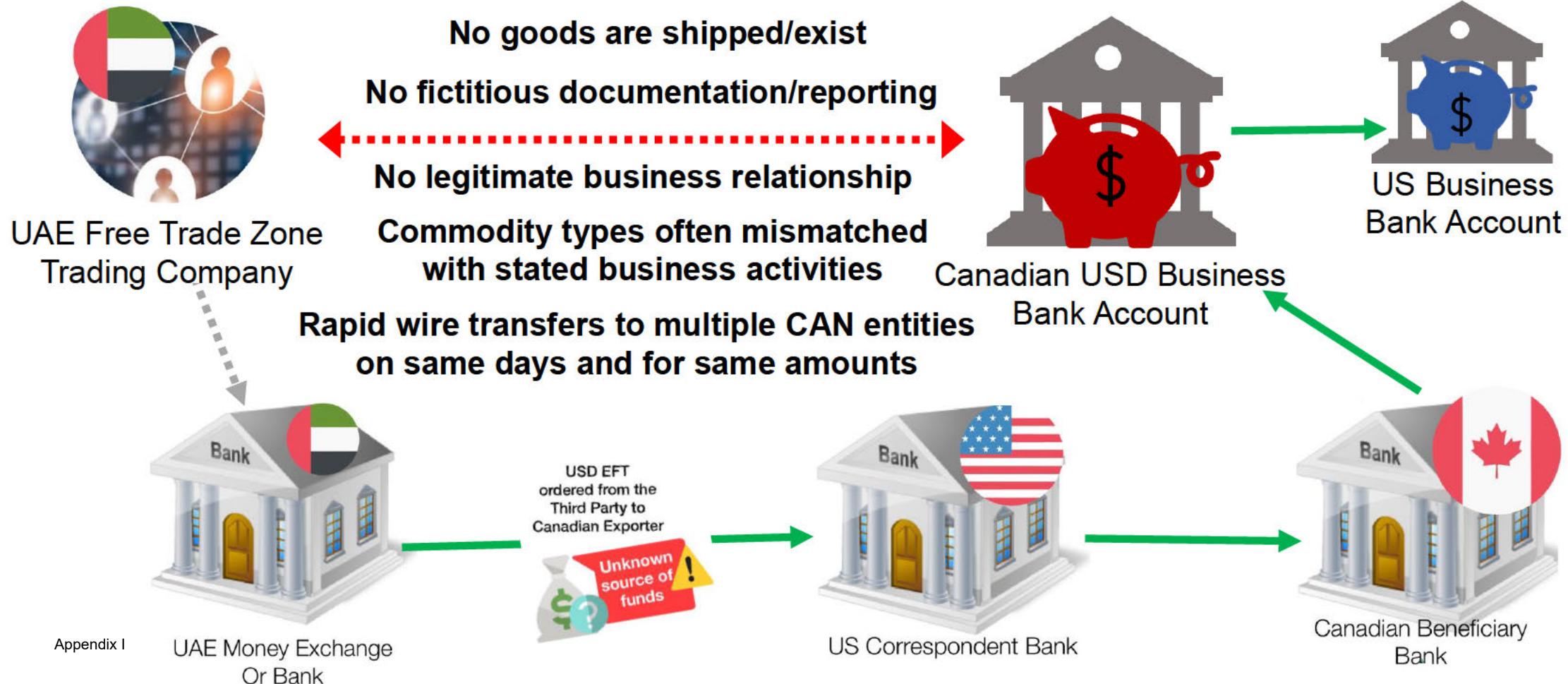


Key Typology 2: Related Party Transactions



Trade-Based Money Laundering Through “Financial” Phantom Shipments

Layering of foreign illicit funds using open account “free flow” wire transfers fraudulently masked as payment for goods



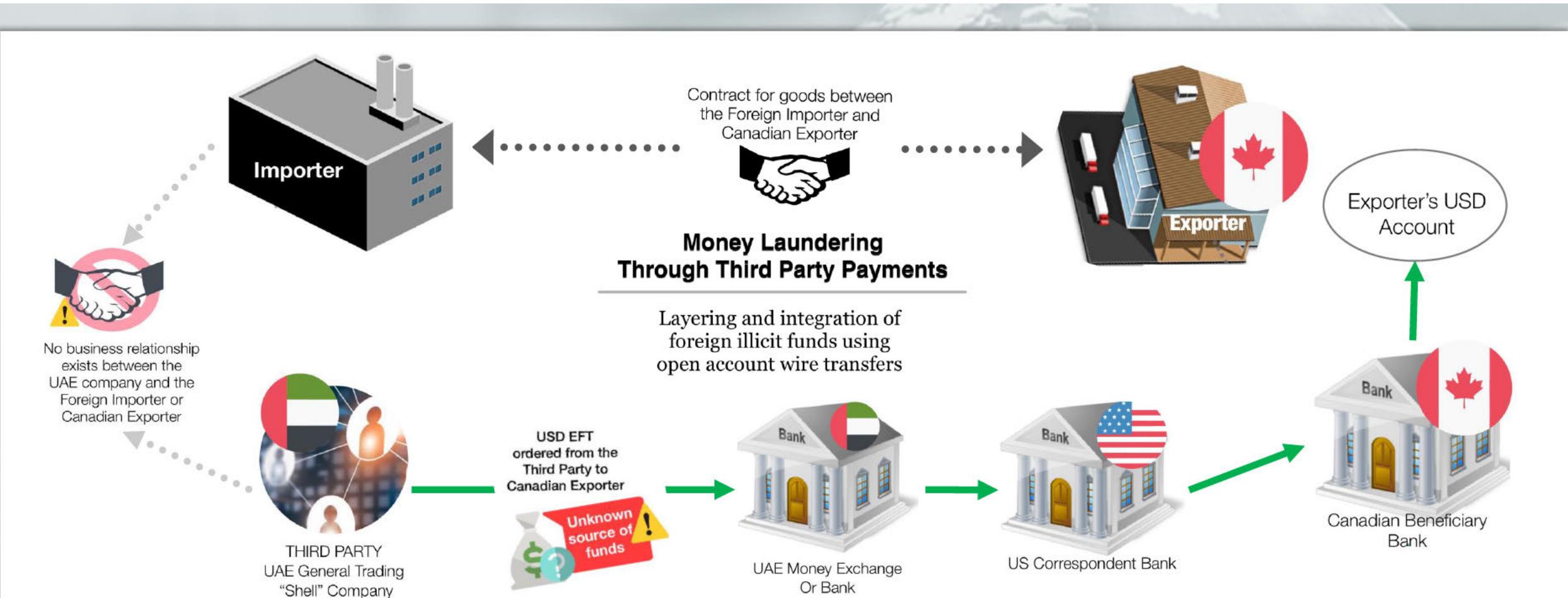
Trends: Professional Money Launderers



- Skilled facilitators of laundering
 - Distanced from the proceeds generating offences
- Linked to professions conducive to laundering
 - Lawyers
 - Accountants
 - Own/control import-export companies
- Sometimes linked to Informal Value Transfer Service networks (*hawala* and *fei chen*)
- Fee for service
 - Fees dependent on access to domestic cash pools
- Co-mingling with casinos and real estate

Appendix I

Example: Third Party Invoice Settlement



Example: Third Party Invoice Settlement (cont'd)



Suspicious Transaction Report:

"...Our client received two wire transfers from the UAE, which is not a location in which the client is known to trade. When questioned, the client advised that the UAE company is a regular customer that normally transfers from Colombia. The client was unable to explain why they were receiving funds from the UAE. The potential flow of funds from Colombia – UAE – to Canada represents an uneconomic flow of funds and is suspicious..."

Canadian Schemes: Mobile Phones



- Portable, easy to ship
- Easy to sell: high-value, high-demand globally
- Descriptions easily manipulated to adjust value (used sold as new, memory size etc.)
- Shipments can be “recycled”
- Inventories acquired by networks of domestic straw buyers
 - Illicit funds used to reimburse buyer credit cards
- Global problem, known to government authorities and banks

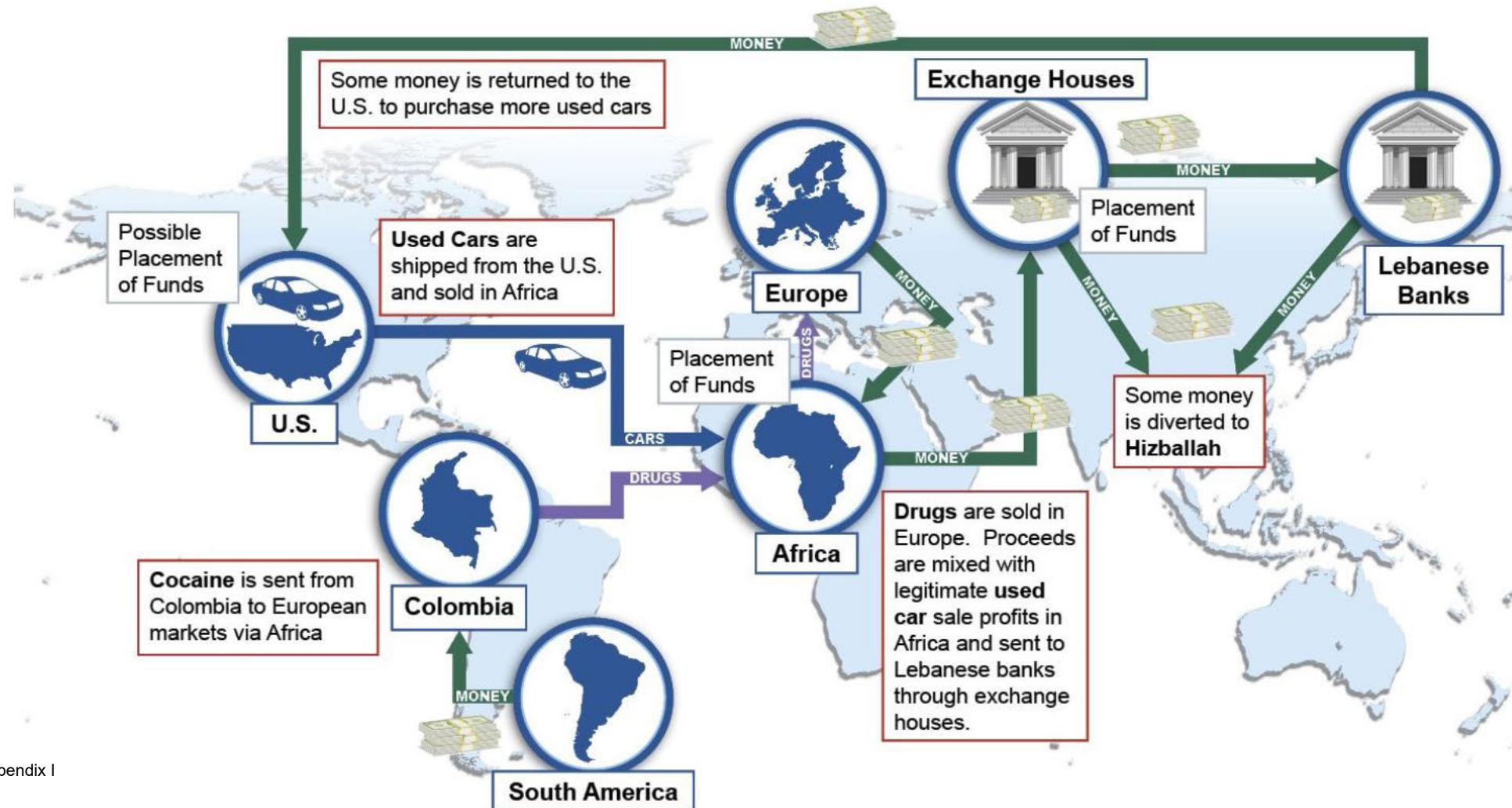
Appendix I

Canadian Schemes: Agri-food sector

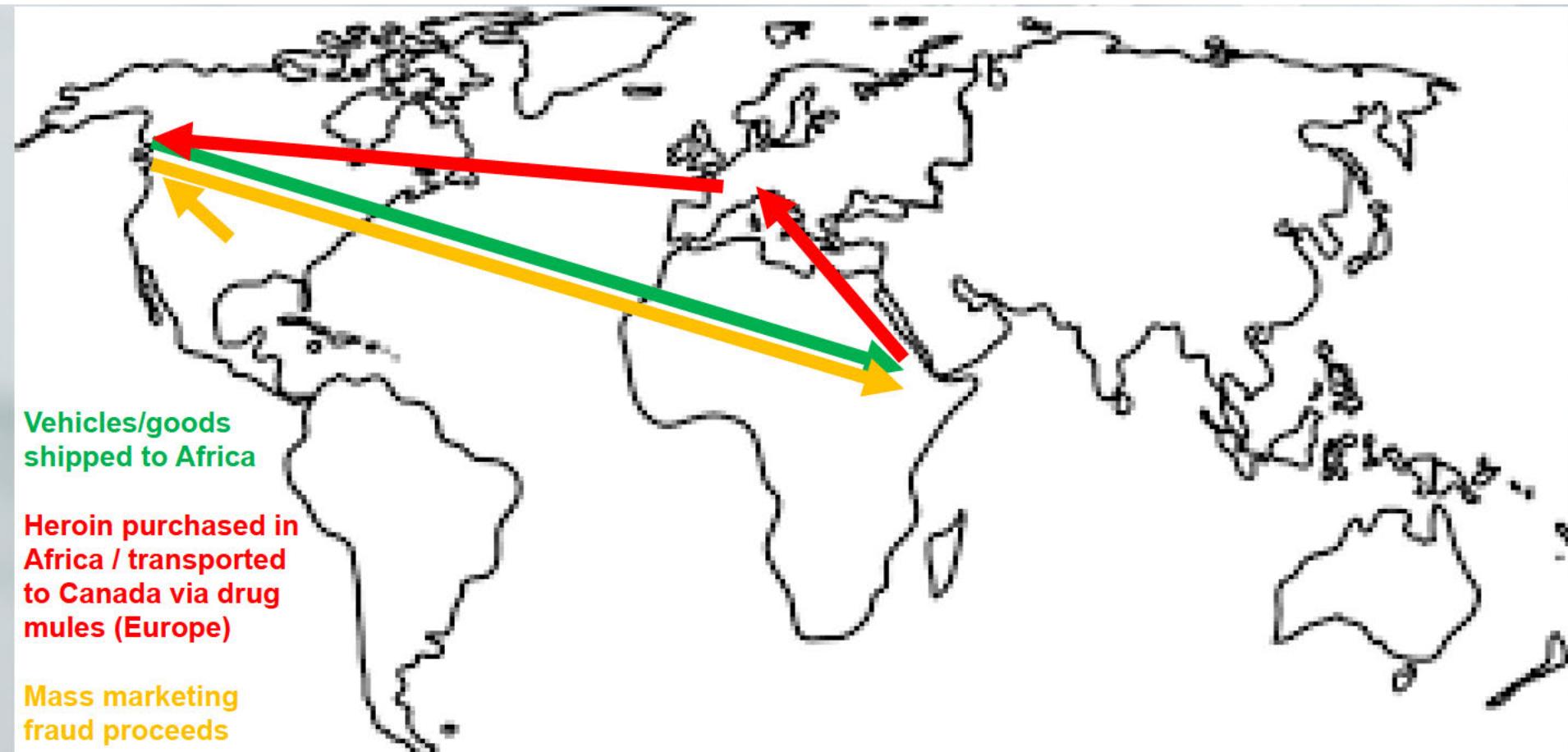


- Vulnerable to international Professional Money Laundering Networks
 - Including variations of the Black Market Peso Exchange
- Receiving payments from unrelated third parties
 - Trade settled via unknown/illicit transfers
 - Agri-food products shipped to drug-source countries
 - Canadian brokers/exporters appear willfully blind to these suspicious transfers
- Example:
 - Colombian client pays Canadian exporter through a UAE General Trading Company. The Canadian exporter did not question this payment method.

Canadian Schemes: Cars



Tangled Web: 1



Tangled Web: 2

4. X receives the drug mules and then trafficks heroin in the Vancouver area

1. X was observed on surveillance shipping used cars/furniture, electronics into sea containers destined for Africa

5. X and his associates receive money from mass marketing fraud rings operating in major metropolitan hubs of the United States; Los Angeles, Houston, New York, Boston, etc.

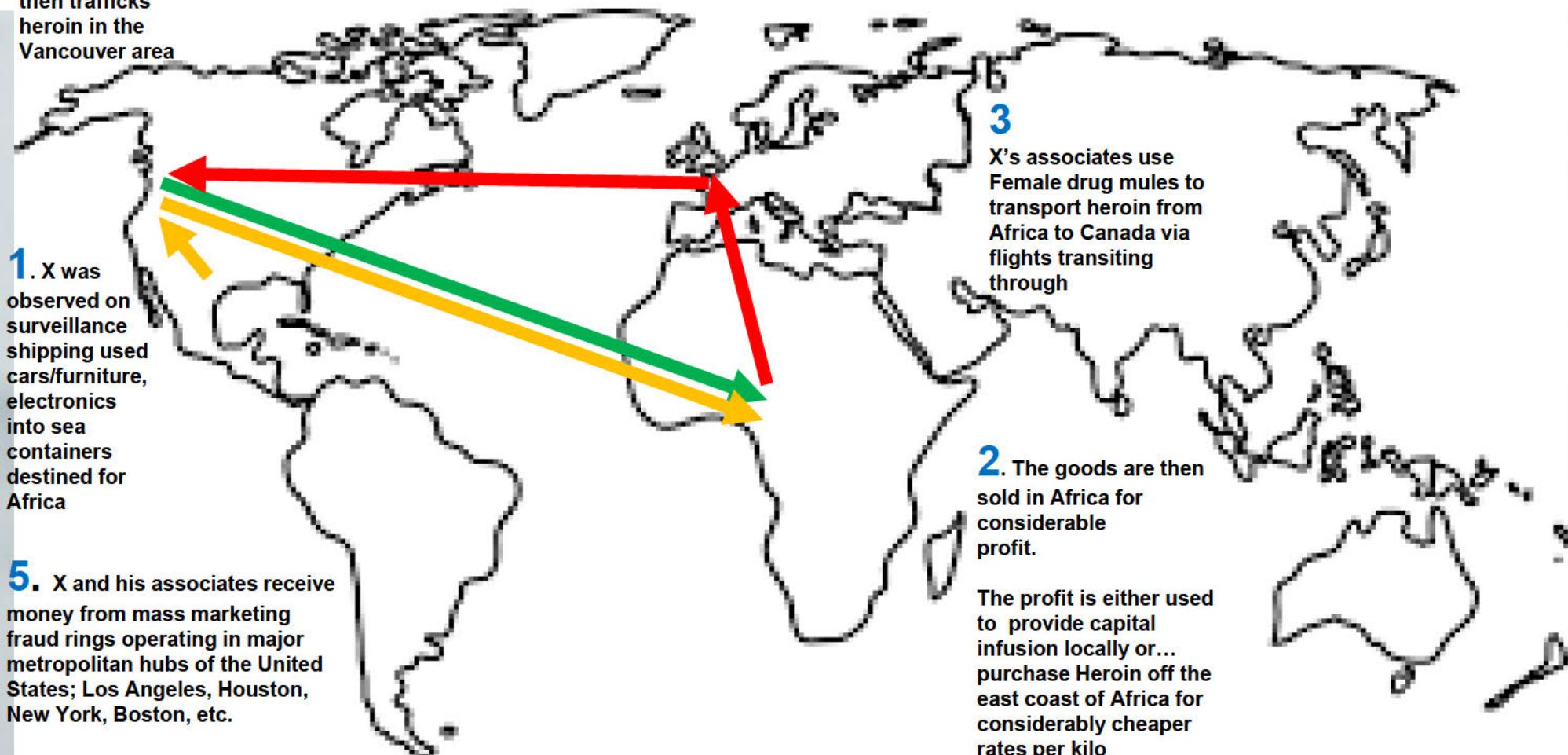
3

X's associates use Female drug mules to transport heroin from Africa to Canada via flights transiting through

2

The goods are then sold in Africa for considerable profit.

The profit is either used to provide capital infusion locally or... purchase Heroin off the east coast of Africa for considerably cheaper rates per kilo



Emerging Issues



- Abuse of Open Account transactions – Third-Party invoice settlement
 - No equivalent to US wire fraud offences (18 USC §1343) in the *Criminal Code*
 - US authorities can leverage wire fraud as a criminal predicate in US TBML schemes
 - No mechanism to reconcile customs declarations with sales and shipping invoices

Emerging Issues (continued)



- Structuring through trade in goods
 - Canadian businesses not required to report cash payments over \$10,000
 - No equivalent to US structuring offences (31 USC § 5324)
- Trade Finance Reporting Gaps
 - Documentary credit information is not accessible to FINTRAC
- *Traders* (i.e. anyone who facilitates the exchange of goods across national borders, such as freight forwarders) not included in current AML/CTF reporting regime.
- FINTRAC does not collect all relevant data (i.e. Letters of Credit, international EFTs under \$10,000, domestic EFTs (unless noted in STRs), trade transactions handled by lawyers)

Operational Challenges



Intelligence

- Identifying TBML from trade transactions extremely difficult (i.e. a needle in a needle stack)
- Opaque trade systems & long supply chains prevent effective monitoring (i.e. buried data)



Investigative

- Complex schemes requiring SMEs
- Must be able to “follow the goods” & “follow the money”
- Often not directly tied to predicates
- New approach: leveraging customs & tax designated offences as basis for charges
- International requests for information



Prosecutorial

- Limited financial crime prosecutorial expertise
- Charges favour predicate crimes
- Blanket assertions of solicitor-client privilege

Structural Challenges



- Multiple stakeholders (domestic & international) required to tackle TBML presents coordination / logistical challenges
- Multiple countries with differing governance/legal regimes
- Multiple agencies with differing but overlapping mandates
 - Information consumers:
 - RCMP, CBSA, FINTRAC, CRA, CSIS
 - Information providers
 - EDC, GAC, IC, provincial agencies, private sector actors
- Non-traditional private sector stakeholders:
 - Financial institutions (including Capital Markets)
 - Trade chain (importer/exporters, customs brokers, freight forwarders, shippers)

Intersecting Mandates – Collective Efforts



**“Those responsible for
detecting and
investigating TBML as
well as those who
collect trade data and
handle trade finance are
critical to raising
awareness and building
capacity to identify
TBML”**

- APG



Building a TBML case



Budget 2019 Initiatives



- GOC AML “Action, Coordination, Enforcement” (ACE) Team (Public Safety Canada lead)
 - Pilot initiative bringing together dedicated experts from across intelligence and law enforcement agencies to strengthen inter-agency coordination and cooperation and identify and address significant money laundering and financial crime threats.
 - Budget 2019 investment of \$24 million over five years, beginning in 2019–20, for Public Safety Canada to implement the ACE Team as a pilot initiative
- CBSA Trade Fraud / TBML Centre of Expertise
 - Brings together CBSA experts in commercial/trade, intelligence, and criminal investigations at NHQ and regional offices to strengthen CBSA’s ability to identify, interdict, and investigate the trade fraud offences that allow TBML to occur
 - Leverage *Customs Act* offences for RCMP to pursue ML
 - Budget 2019 investment of \$28.6 million over four years, beginning in 2020–21, with \$10.5 million per year ongoing
 - Supported through increased financial intelligence from FINTRAC, which received Budget 2019 funding starting in 2021-22

Opportunities



- Private sector engagement
 - FINTRAC Major Reporters Forum
 - ML Contact Group
 - Public Private Partnerships, i.e. Project Athena
- Joint Force Operations
 - Mutual target selection, Cross-training, Develop indicators, foundation for aggregate data sharing
- MOUs and multi-lateral/bi-lateral agreements
- Engaging information collectors and non-traditional partners
 - (EDC, GAC, IC, BCLC)
- Procurement of IT systems capable of analyzing and sharing *big data*
- International collaboration (i.e. resources deployed abroad)



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Dan LAMBERT
Assistant Director
Intelligence Sector
FINTRAC



APPENDICES

Published Guidance

- **FINTRAC Operational alert on Professional Money Laundering (2018):**

- TBML features prominently;
- Public document primarily aimed at providing guidance to reporting entities;
- Based on recent TBML observations;
- Provides basic background and indicators.

- **FATF and APG typology reports:**

- FATF TBML (2006)/ APG TBML (2012)/ BAFT (2017)
- FATF Professional Money Laundering (2018)



Professional money laundering through trade and money services businesses

Professional money launderers are sophisticated actors who engage in large-scale money laundering on behalf of transnational organized crime groups such as drug cartels, motorcycle gangs and traditional organized crime organizations. Professional money launderers sell their services to these groups and are involved in the majority of sophisticated money laundering schemes; they are not members nor are they involved in the predicate offences that generate illicit proceeds. As such, they present unique identification challenges.

While professional money launderers may be accountants, bankers or lawyers, current financial intelligence suggests that they often are owners of, or associated with, trading companies or money-services businesses. Professional money launderers use their occupation and knowledge, as well as the infrastructure associated with their line of work and their networks, to facilitate money laundering, providing a veneer of legitimacy to criminals and criminal organizations.

This operational alert provides indicators for money laundering carried out through trade and money services businesses. Entities required to report to FINTRAC should use these indicators on their own and in combination to identify potential professional money laundering activities. Reporting entities should also use these indicators in conjunction with a risk-based approach and other money laundering indicators. Financial institutions are especially well positioned to recognize and report on suspicious financial transactions that may be connected to professional money laundering. FINTRAC uses these indicators, along with other sources of information, to assess reporting entities' compliance with their reporting obligations.

Trade-based money laundering

Professional money launderers use trade transactions to legitimize proceeds of crime and move them between jurisdictions and between currencies. FINTRAC has observed two main schemes of this type.

- Schemes involving falsified customs, shipping and trade finance documents, including the following:
 - Phantom shipments: Transferring funds to buy goods that are never shipped, received or documented.
 - Falsely described goods and services: Misrepresenting the quality, quantity, or type of goods or services traded.
 - Multiple invoicing: Issuing a single invoice but receiving multiple payments.
 - Over/under invoicing: Invoicing goods or services at a price above or below market value in order to move money or value from the exporter to the importer or vice-versa.
- The Black Market Peso Exchange, which typically works as follows:
 - Transnational organized crime groups, such as Colombian or Mexican drug cartels, place proceeds of crime into the U.S. financial system through structured cash deposits (deposits that are organized to avoid record-keeping or reporting requirements) of U.S. dollars.

FINTRAC Red Flags



Indicators of trade-based money laundering by professional money laundering networks (FINTRAC)

- An entity is a Canadian **small or medium-size import/export company, wholesaler, dealer or broker** operating in a sector dealing in high-volume, high-demand commodities with variable price ranges, including agri-food, textiles, electronics, toys, lumber and paper, and automotive or heavy equipment.
- The entity has **business activities or a business model that is outside the norm for its sector**, or conducts no business activities in Canada. It may also be difficult to confirm the exact nature of the business.
- The entity **transacts with a large number of entities** that have activities in the above-noted sectors or have names that suggest activities in a wide range of unrelated sectors, and also does some or all of the following:
 - receives **a sudden inflow of large-value EFTs**;
 - orders EFTs to China- or Hong Kong-based trading companies or individuals, and receives EFTs from the U.S. and Latin American countries;
 - orders EFTs to entities or individuals in the U.S., Mexico or Latin American countries, and receives such transfers from the U.S.;
 - orders or receives EFTs to/from entities holding a bank account in Latvia or Cyprus, and are registered to addresses in the U.K., Cyprus, the British Virgin Islands, Panama, the Seychelles, Belize, the Marshall Islands or other offshore financial centers; and
 - orders or receives payments for goods in **round figures** or in increments of approximately US\$50,000.
- A trading company based in the United Arab Emirates orders EFTs to individuals or entities in Canada.
- An entity's U.S. dollar business accounts held in Canada exhibit flow-through activity—that is, **money is taken or transferred out of the account as quickly as it flows in**.

FATF Red Flags



Several **red flags** indicating potential TBML are:

- Payments to a vendor by unrelated third parties
- False reporting, such as commodity misclassification, commodity over- or under-valuation
- Repeated importation and exportation of the same high-value commodity, known as carousel transactions
- Commodities being traded that do not match the business involved
- Unusual shipping routes or transshipment points
- Packaging inconsistent with the commodity or shipping method
- Double-invoicing



B. MONEY LAUNDERING

STRATEGIC CONSIDERATIONS

- Law enforcement is not the primary point of contact for data and information pertaining to money laundering. Law enforcement now relies more on partner agencies that submit, receive and analyse financial transactions to identify money laundering and its indicators
- The infiltration or corruption of professional service providers (e.g. lawyers, real estate agents, professional accountants) are necessary for organized crime (OC) and/or professional money launderers to facilitate significant volumes of money laundering
- In 2015, money laundering (specifically trade-based money laundering) was noted to pose a key challenge for intelligence and enforcement agencies within the global public safety industry. This is consistent within BC, where indicators of trade-based money laundering are present
- The investigative and intelligence strategy of “follow the money” is associated with weaknesses and risks, which include:
 - availability and complexity of the data and information
 - dependence on partner agencies for gap identification aimed at overall prioritization
- Gaps related to money laundering include:
 - the identification of facilitators for bulk cash movements
 - the channels used to move cash (or materials of value such as precious metals and gemstones) across borders
 - the spectrum of money laundering strategies being employed
 - evidence of corruption that facilitates money laundering



OVERVIEW

Money laundering supports and is required by criminality. The service of organized money laundering is profitable and has perceived lessened risk for detection, enforcement and disruption. Organized crime groups (OCGs) build capacity and/or contacts in money laundering and can be involved in one, or all aspects of legitimizing funds and moving money. Money laundering swiftly moves from a provincial and territorial arena to a national or transnational context given the globalization of criminality and of formal and informal financial systems. This threat assessment is intended to identify and highlight the risks associated to money laundering in BC and the Yukon for 2015 and beyond, and includes the identification of intelligence gaps.

MONEY LAUNDERING – THREAT

What are the implications for BC and YT?

- Money laundering is a key component of OC that cannot be removed from the criminal supply chain, and it will continue to contribute to significant social and economic costs associated to OC
- The proceeds of illicit drug trafficking and financial crime undertaken by OC continue to drive money laundering activity
- The use of professional services is a key money laundering threat

Money laundering is the process used to disguise the source of money, or assets, derived from criminal activity. In addition to legitimizing criminal proceeds for future criminal use, money laundering poses a significant risk to the integrity of legitimate financial systems and institutions. The worldwide estimate, based on data from 2009, has been noted as being between USD\$1.5 trillion and USD\$2.1 trillion annually. As a support function, money laundering reinforces OC. The United Kingdom (UK) 2015 National Risk Assessment of Money Laundering and Terrorist Financing report stated that in the UK the social and economic costs of serious and organized crime are estimated to be USD\$34 billion. While no figures are available for BC or the Yukon, it is safe to assess that OC activity in BC and the Yukon results in significant economic and social costs.

In March 2015 and 2016, the US Department of State categorized Canada as a “jurisdiction of primary concern” related to money laundering. Canada measured well in a number of assessed areas, yet was assigned the highest rating as a jurisdiction of primary concern.



The US Department of State report included an analysis of:

- the size of financial transactions involving proceeds of crime
- the steps taken to address money laundering
- the state's vulnerability to money laundering
- related laws and policies
- the effectiveness of government actions
- the government's political will to take required actions

Illicit drug trafficking and financial crime profits are the primary drivers of money laundering activities in Canada. According to the US Department of State, criminal proceeds laundered in Canada are derived from domestic activity controlled by drug trafficking organizations and OC. Methods associated to money laundering in Canada are stable and include a number of tactics noted in BC-based investigations and intelligence probes. These include:

- money service businesses (MSBs) and currency exchanges
- casinos
- wire transfers
- use of professional services

The use of professional services, such as lawyers and accountants, has been identified as a key money laundering threat by the US Department of State and by the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), Canada's financial intelligence unit. In 2015, the UK National Risk Assessment of Money Laundering and Terrorist Financing report noted that individuals working in the regulated sector may unwittingly facilitate money laundering, through negligence or non-compliance. This is also assessed as taking place in BC and the Yukon. The US Department of State report noted that trade-based money laundering indicators are present in Canada. The assessment cannot be broken down for BC and the Yukon; however, BC is consistent with the environment required to support trade-based money laundering. It has ports, a large volume of international trade, resources and goods exports, available professional services, and a stable, accessible financial system.



MONEY LAUNDERING ASSOCIATED WITH PRECIOUS METALS

What are the implications for BC and YT?

- Gold and other precious metals provide a strong opportunity for money laundering activity or diversification – they have a global market, rely upon cash, are associated to lower risk for returns, and carry a degree of anonymity
- The exchange of precious metals can be completed without a paper trail between parties, limiting the ability of intelligence and law enforcement agencies to investigate

The Financial Action Task Force (FATF) wrote a Money Laundering report in 2015 that assessed the money laundering and terrorist financing risks and vulnerabilities associated with gold. The report was a joint effort with the Asia / Pacific Group (APG), and was undertaken to assess money laundering activity being displaced as a result of a hardening in the financial sector and cash markets. This assessment is particularly relevant to BC and the Yukon from a strategic perspective as recent investigational and regulatory efforts are perceived to have applied pressure to the formal financial sector. In addition, BC and the Yukon are part of the Asia-Pacific region.

Gold is a universally accepted global currency with a stable demand due to its intrinsic value, associated religious, social, and cultural factors, and the ease with which it can be exchanged. The gold market is global and while it is covered under the FATF standards (recommendation 23), its regulation is complex.

Why is gold of interest to OC? Gold is a bearer instrument and provides a degree on anonymity. While simple, small money laundering operations involving gold are highly feasible – such as “cash for gold” operations – slightly more complex operations are associated with little additional risk. The purchase, movement and trade in gold can quickly and easily occur between multiple countries, allowing for significant criminal proceeds to be inserted, layered and extracted over a short time period. Paying tax can be avoided and gold can be sold quickly at a profit. The FATF provided a case study that highlighted a five day turnaround of drug trafficking profits being returned to OC as laundered funds. The money laundering strategy was so efficient that the party providing the service waived all fees – OC laundered criminal proceeds at no cost.



Additionally, gold and precious metals are easy to smuggle and trade, and typically provide a stable return with little inherent risk in the short-term. From the perspective of trade-based money laundering, the physical commodity may never have to move from one location to another if the intent is to only support the movement of large amounts of money. Given the high value of gold, it can be used on an invoice as the justification for transferring significant sums of money between companies and across borders.

In July 2015, the Department of Finance, Government of Canada, (DOF) provided an assessment that dealers in precious metals and stones (DPMS) are considered to be rated at the high vulnerability (the second highest rating) within the economic and financial sector. The vulnerability rating was made as a result of large transactions, large volumes, cash transactions, high degree of anonymity, and high commodity value. DOF also noted DPMS as a highly accessible sector. This is consistent with information noted in the FATF assessment report, which highlighted a number of indicators pertaining to various roles within precious metals and money laundering. It is assessed that these indicators should be reviewed and applied by operational intelligence in law enforcement in order to define intelligence requirements and provide enforcement and disruption opportunities.

Additional strategic analysis and assessment is required in the area of precious metals and stones, given the relevance of the natural resource industry in northern BC and the Yukon. The FATF has published a relevant assessment on this subject; however, it is believed that a significant amount of environmental scanning and research is required before any assessments can be made for BC and the Yukon.



DOF – ASSESSMENT OF INHERENT RISKS OF MONEY LAUNDERING

What are the implications for BC and YT?

- Transnational OC and professional money launderers are assessed to be the key actors associated to the highest rating for threat, relative to money laundering and the negative economic and social cost
- The criminal activity associated to the highest threat level (money laundering) included illicit drug trafficking, third-party money laundering, fraud, and corruption and bribery
- The products and services associated to the most severe economic and financial sector vulnerabilities are readily available to individuals in BC and the Yukon, either independently or through related professional services
- Professional services have a presence in at least three of the five sectors identified as being the highest risk, further supporting the assessment that the infiltration and/or corruption of professional services are a key threat factor in money laundering

As stated in the July 2015 DOF report on the assessment of inherent risks of money laundering and terrorist financing:

“Money laundering and terrorist financing compromise the integrity of the financial system and are a threat to global safety and security. Money laundering is the process used by criminals to conceal or disguise the origin of criminal proceeds to make them appear as if they originated from legitimate sources. Money laundering frequently benefits the most successful and profitable domestic and international criminals and OC groups.”

The DOF assessment was comprehensive and included information and intelligence through December 31, 2014. Established within the assessment was the threat level for criminal activity, vulnerabilities for economic sectors and financial products, and inherent money laundering risks. DOF assessed that “transnational organized crime (TNOc) groups and professional money launderers are the key threat actors” and that “many of these threats are similar to those faced by several other developed and developing countries”.



The criminal activities deemed to be most relevant to OC in BC and the Yukon are:

- illicit drug trafficking
- third-party money laundering
- fraud (mass marketing fraud, capital market fraud, mortgage fraud, commercial fraud)
- corruption and bribery

The most significant money laundering vulnerabilities associated to the economic and financial sector are:

- domestic banks
- for-profit private corporations
- money service businesses (MSBs) – small independent MSBs, national full-service MSBs
- express trusts

Some of these vulnerabilities are commonly associated to money laundering activity and some have surfaced in recent investigations and intelligence probes; others, such as for-profit private industry, are noted as key components of money laundering strategies – not concretely known but suspected to exist given current indicators.

As DOF noted (and which is consistent with the environment for BC and the Yukon), many of the sectors and products are openly accessible to individuals in Canada and internationally. Furthermore, this availability can be facilitated through the use of professional services, either unwittingly through negligence or non-compliance, or with criminal intent. It is important to note that professional services was assessed as a key threat area for Canada, and coupled with readily available economic and financial sector vulnerabilities, pose a significant risk in BC and the Yukon.

Additionally, the openly available products and services within the economic and financial sector are “associated with a high volume, velocity and frequency of transactions”. This provides an opportunity for those with criminal intent. When coupled with strategies that induce complexity for increased anonymity and leverage jurisdictions with limited anti-money laundering regulations, the magnitude of the vulnerability grows.

The final component of the DOF assessment included the layering of threats and vulnerabilities for the identification of risk. This represented the threat actors (e.g. TNOC) engaged in money laundering of criminal proceeds generated from key types of criminality. The list below includes DOF’s highest money laundering risks that are relevant to BC and the



Yukon. The DOF assessment noted that TNOC and OC were the most significant threat actors.

The highest degree of risk for money laundering:

- deposit-taking financial institutions – domestic banks, foreign bank subsidiaries
- money service businesses (MSBs) – national full-service MSBs, small independent MSBs, smaller retail MSBs, internet-based MSBs
- casinos
- non-financial businesses and professions – legal professionals, real estate agents and developers, DPMS
- corporations and trusts – for-profit corporations, express trusts

Again, the potential for the involvement of professional services is evident in three of the five risk types identified above.

The DOF report also highlighted a significant number of indicators which pertain to varied money laundering threat tactics. These indicators should be reviewed and applied by operational intelligence in law enforcement in order to define intelligence requirements and provide enforcement and disruption opportunities.

COMBATTING MONEY LAUNDERING – DATA AND PARTNERSHIPS

What are the implications for BC and YT?

- The detection and identification of money laundering associated to OC will continue to be heavily reliant on receiving data and information from the private sector
- The creation of a money laundering think-tank in BC, involving expertise from the private sector, intelligence and law enforcement agencies would serve to better inform the detection and prioritization of OC involved in money laundering activity

From the perspective of data and information, Canada (including BC and Yukon) exists in an environment similar to that in the UK. Simply stated, the private sector takes in and maintains a significant portion of the data and information related to the detection and disruption of money laundering. Consistent with the UK report findings and the UK Joint Money Laundering Intelligence Taskforce (JMLIT) pilot project established in 2015, BC and the Yukon would benefit from increased collaboration and information-sharing between the financial sector and intelligence and law enforcement agencies. FINTRAC is engaged with numerous law enforcement agencies in BC for the purpose of information and intelligence sharing, and money



laundering detection. However, FINTRAC cannot solely bear the responsibility of managing intake, analysis and assessment, as well as providing direct support to law enforcement investigations. This is congruent with challenges in the financial crime criminal market, whereby there is a significant volume of data and information held in the private sector. Access to subject matter experts, techniques, and collaboration between the private sector, intelligence, and law enforcement offers a potential solution towards the reduction of OC in the areas of money laundering and financial crime.

Further supporting the need for private sector collaboration is the opposition of business regulation and healthy, profitable businesses in the financial sector. For example, in August 2015, the UK government announced that money laundering controls would be relaxed in order to save British companies approximately CAD\$15 billion per year. The intent is to increase efficiency without any sacrifice to public safety and security. This will innately require input from all impacted parties noted above, including government. It is initiatives such as this that can be delivered quickly and effectively should a collaborative environment flourish.



B. MONEY LAUNDERING

STRATEGIC CONSIDERATIONS

- Indicators suggest that money laundering, and the movement of illicit proceeds, occurs widely in several industries using legitimate and illegitimate means and that criminals involved in money laundering and money movement are not dissuaded by the requirement to report transactions above the \$10K CAD threshold. Instead OCGs act overtly by using legitimate businesses to overshadow their illegal activity.
- As noted by FINTRAC in 2016, financial systems and individuals in Canada are used by foreign OC to legitimize proceeds of crime and support international money laundering. This is of particular interest for BC, given the known presence and activity of Transnational OC (TNOC) in international drug trafficking, precursor chemical movement and smuggling, and money laundering.
- The use, or corruption of, professional service providers (e.g. lawyers, real estate agents, professional accountants etc.) continues to be used by OC groups (some of which can be considered professional money launderers) to facilitate significant money laundering. It is assessed that this will continue to pose a significant threat to BC.
- There are indicators that trade-based money laundering is occurring in BC. These were first noted in 2015 and remain present. Trade-based money laundering poses significant challenges for intelligence and enforcement agencies within the global public safety industry; as noted by FINTRAC, inter-agency analysis is required.
- Indicators suggest that a significant volume of illicit proceeds from OC in BC and the Yukon is laundered through informal financial systems, and investment in real estate and legitimate businesses. The true extent to which informal financial systems are used, at least for the initial money movement, is believed to be high but represents an intelligence gap.

OVERVIEW

Money laundering supports, and is required by, criminality and providing the service of organized money laundering is lucrative and with a perceived lesser risk of detection, enforcement, and disruption. OCGs build capacity and contacts who engage in money laundering and can be involved in one, or all, aspects of legitimizing funds and moving money. Money laundering swiftly moves from a provincial and territorial arena to a national or transnational context given the globalization of criminality and that formal and informal financial systems are utilized.



MONEY LAUNDERING – THREAT

What are the implications for law enforcement in BC and YT?

- The proceeds of both illicit drug trafficking and financial crime undertaken by OC continue to drive money laundering activity in BC. This is consistent with trends from other countries (e.g. UK); drug trafficking is a stable criminal market in BC and the Yukon. It is assessed that money laundering activity will increase in BC and Yukon over the next 12 to 24 months due to increasing smuggling and trafficking activity by OC, and because BC has become a transshipment point for illicit drugs.
- Canada remains a ‘jurisdiction of primary concern’ related to money laundering, as categorized by the US Department of State since 2015. The use of professional services remains as a key money laundering threat, whether through negligence or non-compliance.
- In 2016 FINTRAC assessed that financial systems and individuals in Canada are used by foreign OC to legitimize the proceeds of crime. The nexus between transnational organized crime (TNOC) and money laundering actors in Canada was also noted as posing a significant threat. This is of particular interest for BC, given the known presence of TNOC in the province, with known involvement in international drug trafficking and money laundering.

MONEY LAUNDERING – PRECIOUS METALS AND STONES

What are the implications for law enforcement BC and YT?

- Dealers in precious metals and stones (DPMS) are a highly vulnerable sector for money laundering – this sector is highly accessible and associated to large cash transactions and has a high degree of anonymity. As noted by FINTRAC some of these dealers are also associated to, or operate, informal value transfer systems, further increasing their ability to engage in money laundering. There is limited information and intelligence regarding DPMS in BC and Yukon and there are no current assessments regarding criminal use of this sector. Given the potential for money laundering and the global reach of the sector, additional strategic analysis and assessment is required. LE should consider engaging a joint effort with FINTRAC on this issue.
- Given the significance of the natural resource industry in northern BC and the Yukon and the opportunity for OC groups and/or criminal actors to leverage legitimate businesses for large scale money laundering, additional strategic analysis and assessment is required. Indicators of suspected money laundering activity should be developed and used to report operational intelligence to support enforcement.



INHERENT RISKS OF MONEY LAUNDERING

What are the implications for law enforcement in BC and YT?

- The products and services associated to the greatest vulnerabilities of BC's economic and financial sectors will remain readily available to OC in BC and the Yukon, as first noted by Department of Finance, Government of Canada, in 2015.
- Professional services remain as a potential high risk to facilitate money laundering, whether they operate as deposit-taking legitimate financial institutions, money service businesses, related businesses and professions (e.g. legal professionals, real estate agents and developers, DPMS), and corporations and trusts.
- In 2016, FINTRAC assessed that beneficial foreign ownership rules, combined with using corporate and legal vehicles, pose an increased threat for money laundering in Canada and that these processes are currently being utilized by OC in Canada. This is assessed as occurring in BC and the Yukon, but the full extent is unknown.



B. CRIMINAL MARKET NARRATIVE - MONEY LAUNDERING

OVERVIEW

Money laundering (ML) is an essential process used by OC to disguise the source of funds and evidence that crimes have been committed (making it less vulnerable to seizure by LE)¹¹ and to finance further criminal operations. Ultimately the goal is to place illicit funds into the legitimate financial system. To facilitate their money laundering, BC-based OC groups use a range of techniques – from sophisticated schemes involving Trade-Based Money Laundering (TBML), to using specialized criminal money launderers who may or may not operate money service businesses (MSBs), to hiring legitimate professionals (such as notaries, lawyers, accountants, etc.) who may or may not be complicit in the illegal activities.

STRATEGIC CONSIDERATIONS

- In general, there are intelligence gaps in BC and Yukon related to the full scope of criminal involvement in ML activities and the OC groups which are involved. Factors contributing to the gaps and challenging LE agencies in investigating ML include:
 - difficulties in sharing of information and intelligence between LE, anti-money laundering (AML) agencies, private sector agencies, and regulatory bodies
 - differing AML legislation and/or AML policies in various countries¹², and
 - prosecuting cases where predicate offences may be difficult to establish¹³
- There is limited information indicating that Yukon-based OC groups use sophisticated ML techniques such as TBML or use professional money launderers
- In BC, money laundering is usually not the primary focus of an investigation but is part of other investigations looking at predicate offences¹⁴
- Professional money launderers who own MSBs operating in BC are being used by BC-based OC groups to launder funds.

¹¹V1 [REDACTED]

¹²V1 [REDACTED]

¹³ FATF/APG (2016), Anti-money laundering and counter-terrorist financing measures - Canada, Fourth Round Mutual Evaluation Report, FATF, Paris, www.fatf-gafi.org/publications/mutualevaluations/documents/mer-canada-2016.html

¹⁴V1 [REDACTED]



PROFESSIONAL MONEY LAUNDERERS

- Professional money launderers specialize in laundering proceeds of crime and offer their services to criminals for a fee¹⁵; many money launderers operate MSBs (e.g. coin and bullion exchanges, overseas fund remitters, etc.), and these pose a high threat to BC and Yukon because:
 - they are capable of supporting complex long-term ML operations and manipulating the money transfer system
 - their operations and the BC-based OC groups who use their services are transnational¹⁶
- OC groups in BC use professional money launderers and illegal MSBs, however, the amount of this activity that is occurring is estimated to be underreported. MSBs that are controlled or manipulated by OC groups offering financial services and money laundering for OC have historically surfaced in police investigations, but some of these are no longer included in the PTA due to a lack of recent information and intelligence
- From what is known currently and historically, there is a network of OC groups who operate MSBs, who support each other's ML activities, and are associated to other OC groups in BC¹⁷
- Professional money launderers are often not directly involved in the predicate offences. This distance from the offence insulates money launderers, and these criminal actors are likely to receive lesser charges, such as conspiracy or fraud, with limited reprimand¹⁸. This can pose a challenge for LE trying to pursue charges against professional money launderers¹⁹.

¹⁵ Department of Finance Canada, Assessment of Inherent Risks of Money Laundering and Terrorist Financing in Canada – 2015, p.22 Unclassified, <https://www.fin.gc.ca/pub/mltf-rpcfat/index-eng.asp>

¹⁶ Financial Action Task Force (FATF), Money Laundering through Money Remittance and Currency Exchange Providers, June 2010,

<http://www.fatf-gafi.org/media/fatf/ML%20through%20Remittance%20and%20Currency%20Exchange%20Providers.pdf>; Department of Finance Canada, Assessment of Inherent Risks of Money Laundering and Terrorist Financing in Canada – 2015, p.22 Unclassified, <https://www.fin.gc.ca/pub/mltf-rpcfat/index-eng.asp>; V1

¹⁷ V3: Ongoing Investigation

¹⁸ FATF/APG (2016), Anti-money laundering and counter-terrorist financing measures - Canada, Fourth Round Mutual Evaluation Report, FATF, Paris, www.fatf-gafi.org/publications/mutualevaluations/documents/mer-canada-2016.html

¹⁹ Department of Finance Canada, Assessment of Inherent Risks of Money Laundering and Terrorist Financing in Canada – 2015, Unclassified, <https://www.fin.gc.ca/pub/mltf-rpcfat/index-eng.asp>



What are the implications for LE?

- Professional money launderers may surface in other investigations (e.g. drug cases) as secondary targets
- Due to the lack of information and intelligence, these groups are underreported and operate largely unchecked.

PROFESSIONAL SERVICE PROVIDERS

- Professional service providers (e.g. lawyers, real estate agents, mortgage brokers, accountants, etc.) are used by OC groups in BC to provide services (e.g. purchasing real estate, establishing trusts and domestic and offshore companies, and passing funds through their client accounts) that OC uses in their money laundering activities²⁰. The professional service providers thus serve as facilitators to OC.
- There are several high threat level OC groups in BC that have used professional service providers²¹, and it appears there are some professionals who may be complicit in the money laundering²². It is difficult to prove the individual is knowingly facilitating money laundering²³, and it is unknown to what degree professional service providers may be coerced or extorted to become involved
- It is assessed that ML activities require professionals who serve as facilitators, and that those who are complicit in these schemes pose a high level of threat; they are able to structure the illegal activities to obscure the source of the illegal funds²⁴ in order to avoid detection from LE and other investigative bodies (e.g. professional associations).

²⁰ Financial Action Task Force(FATF), Money Laundering and Terrorist Financing Vulnerabilities of Legal Professionals, June 2013, <http://www.fatf-gafi.org/publications/methodsandtrends/documents/mltf-vulnerabilities-legal-professionals.html>; Department of Finance Canada, Assessment of Inherent Risks of Money Laundering and Terrorist Financing in Canada – 2015, Unclassified, <https://www.fin.gc.ca/pub/mltf-rpcfat/index-eng.asp>;

²¹ **V1** Adam Ross, “ On our doorsteps: Money laundering in Canadian real estate,” The Canadian Bar Association: British Columbia Branch, 2018, <https://www.cbabc.org/Sections-and-Community/Business-Law/Business-Law-Quarterly/Business-Law-Quarterly-Archives/Q2-Current-Issues-in-Anti-Corruption-and-Money-Lau/On-our-doorsteps-Money-laundering-in-Canadian-real>

²² Kathy TOMLINSON , “ B.C. vows crackdown after Globe investigation reveals money-laundering scheme, The Globe and Mail (BC Edition), ” 2018-02-16, <https://www.theglobeandmail.com/news/investigations/real-estate-money-laundering-and-drugs/article38004840/>

²³ Financial Action Task Force(FATF), Money Laundering and Terrorist Financing Vulnerabilities of Legal Professionals, June 2013, <http://www.fatf-gafi.org/publications/methodsandtrends/documents/mltf-vulnerabilities-legal-professionals.html>

²⁴ Department of Finance Canada, Assessment of Inherent Risks of Money Laundering and Terrorist Financing in Canada – 2015, p.22 Unclassified, <https://www.fin.gc.ca/pub/mltf-rpcfat/index-eng.asp>; Department of Finance Canada, Reviewing Canada’s Anti-Money Laundering and Anti-Terrorist Financing Regime, February 07, 2018, Unclassified, <https://www.fin.gc.ca/activty/consult/amlatfr-rpcfat-eng.asp>



What are the implications for LE?

- While there is a general understanding that professional service providers are being used to assist OC groups in money laundering, there is a need for LE and other agencies to work with the professional associations (e.g. real estate councils, law societies, accounting associations, etc.) to ensure their members are not knowingly involved in the money laundering activities of OC²⁵.

TRADE-BASED MONEY LAUNDERING

Canada has a high level of global trade, an open economy, and a stable financial system, which makes it susceptible to money laundering of all kinds, including trade-based money laundering (TBML)²⁶. Proceeds of crime laundered in Canada can originate from domestic or international criminal enterprises²⁷.

- There are OC groups in BC that have the capability, knowledge, and transnational relationships to orchestrate TBML. These OC groups have the knowledge, skills, and relationships to manipulate trade chains²⁸ and conduct complex foreign exchange transactions to commingle the proceeds of crime²⁹
- While there are currently two BC-based OC groups known to be involved in TBML³⁰, it is believed this is an underrepresentation, and the true scope of TBML in BC is not well understood. TBML is an intelligence gap in BC and Yukon
- TBML is assessed as posing a high threat because the groups involved operate transnationally and work with OC in other countries, and the amount of legitimate trade provides ample opportunities for conducting this type of money laundering. Information and intelligence gaps suggest that much activity in this area is undetected by LE.

²⁵ Department of Finance Canada, Reviewing Canada's Anti-Money Laundering and Anti-Terrorist Financing Regime, February 07, 2018, Unclassified, <https://www.fin.gc.ca/activity/consult/amlatfr-rpcfat-eng.asp>

²⁶ Department of Finance Canada, Assessment of Inherent Risks of Money Laundering and Terrorist Financing in Canada – 2015, p.35, Unclassified, <https://www.fin.gc.ca/pub/mltf-rpcfat/index-eng.asp>; V1 [REDACTED]

²⁷ V1 [REDACTED]

²⁸ Department of Finance Canada, Assessment of Inherent Risks of Money Laundering and Terrorist Financing in Canada – 2015, p.20, Unclassified, <https://www.fin.gc.ca/pub/mltf-rpcfat/index-eng.asp>

²⁹ Department of Finance Canada, Assessment of Inherent Risks of Money Laundering and Terrorist Financing in Canada – 2015, p.35, Unclassified, <https://www.fin.gc.ca/pub/mltf-rpcfat/index-eng.asp>; V1 [REDACTED]

³⁰ V1 [REDACTED]



What are the implications for LE?

- While there is a general understanding that TBML occurs, its scope, methods, and techniques used in TBML are not well understood by LE³¹, which means that OC groups in BC that are conducting TBML will continue to transfer value across borders, evade detection, and launder proceeds of crime in various countries.

³¹V1 [REDACTED]



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CISBC-YT Money Laundering Collection Initiative (2018)

Date: 2018-05-03

Revision: 2.0

V1

Context

In July 2017, CISBC/YT Analytics Manager, Ryland WELLWOOD, assigned [REDACTED] to the Money Laundering Portfolio. The intent was to develop the Money Laundering Portfolio including developing a contact list of experts and creating strategic assessment reports on the involvement of organized crime in money laundering in BC and YT.

Money Laundering: Topics and Priorities

In March, 2018, PTA lead, [REDACTED], tasked [REDACTED] to provide a list of topics that related to the money laundering criminal market portfolio (relating to threat and OC involvement), including prioritizing topics in terms of the threat.

Methodology

The assessment of topics was based on various criterions in order to be assessed as HIGH, MEDIUM, LOW, and UNKNOWN. As such, a cursory review of the OC Groups in BC were reviewed and a list of money laundering topics were identified. An environmental scan was reviewed of open source new media reports and other open source intelligence reports. Other topics have been identified through conversations with others with knowledge of money laundering issues (experts), current FSOC and CFSEU projects and topics identified during the money laundering national working group (MLWG). See Table 1. Assessment of topics, and Table 2. List of topics proposed.

It is proposed to CISBC/YT management that topics be considered for the next 9-12 months.

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**Table 1****Assessment of Topics:**

	Assessment of Topics:
High	OC groups in BC/Yukon has control over or directs ML operations for their own purposes, and/or for others ML operations, AND 5 or more of the following criteria: <ul style="list-style-type: none"> - International reach (high scope in operations) - the known use of others (smurfs/nominees/strawmen) & the potential of corrupted staff - Known infiltration of private sector in Canada and/or other jurisdictions - Known infiltration of the public sector in Canada and/or other jurisdictions - Known component of physical violence and/or elements of public safety - Significant challenges for LE agencies (ie. LE in BC alone cannot address) - The known use of trained professionals to assist with ML operations - High public reporting on topic & public perception on LE tackling ML
Medium	OC groups in BC/Yukon has influence over the vehicle to facilitate ML operations AND 3 or more of the following criteria: <ul style="list-style-type: none"> - International reach (high scope in operations) - Suspected use of others (smurfs/nominees/strawmen) & the potential of corrupted staff - Suspected Infiltration of private sector - Suspected infiltration of the public sector - Potential component of physical violence and/or elements of public safety - Challenges for LE agencies (ie. LE in BC alone cannot address) - The suspected use of trained professionals to assist with ML operations - Some public reporting on topic & public perception on LE tackling ML
Low	OC groups in BC/Yukon has links to, influence or control over the vehicle and suspected to facilitate ML operations AND 2 or more of the following criteria: <ul style="list-style-type: none"> - Suspected International reach (high scope in operations) - Suspected attempt infiltration of private sector in Canada and/or other jurisdictions - Suspected attempt infiltration of the public sector in Canada and/or other jurisdictions - No component of physical violence and/or elements of public safety - Limited direct involvement with LE agencies - Public reporting: Possible public speculation without concrete info (BC)
Unknown	OC groups in BC/Yukon has unknown influence or control over the vehicle and suspected to facilitate ML operations AND 2 or more of the following criterions: <ul style="list-style-type: none"> - Suspected International reach (high scope in operations) - unknown infiltration of private sector in Canada and/or other jurisdictions - unknown infiltration of the public sector in Canada and/or other jurisdictions - No component of physical violence and/or elements of public safety - Limited direct involvement with LE agencies - Public reporting: Possible public speculation without concrete info (BC)

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Proposed Topics

There are three topics relating to money laundering that are proposed for follow up and intelligence assessments. These topics were selected as a result of various attributes, such as public interest and visibility; high threat & use by OC Groups; the potential of high scope (international connectivity); increased challenges to LE/AML regime and the use of MSB, PSP and casinos as a medium to facilitate ML operations.

Topics include:

1) MSB/Alternative Money Remittance systems (prior topic researched)

High threat due to:

- There are BC providers that have OC Groups as clients (professional money launderers with MSB) in other provinces
- OC groups in BC/Yukon has control over or directs ML operations for their own purposes and/or for others
- Professional ML: Those known to operate MSB are often sought by TNOG Groups to facilitate ML operations
- International reach and international scope

Subtopics:

- Registered MSB vs non registered MSB and how the MSB system is based on expectation to comply. There is no enforcement to comply or register your MSB.
- Alternative money remittance systems (eg: hawala, hundi, chitti, and undiyal) used by OC groups and understanding the token system of Hawala.

2) LE challenges of investigating & prosecuting Money Laundering in BC and Yukon

High threat due to:

- Current challenges (burden of evidence, lack of expertise, lack of resources)
- Future challenges
- Issues with other countries ML legislation and foreign policies
- offshore companies and accounts
- foreign criminals can also use Canadian corporations and trusts to conduct money laundering
- foreign AML measures and effects of investigation into ML

Subtopics:

- Charges and proceeding with offence-related property vs proceeds of crime
- Seizure: civil forfeiture vs. criminal forfeiture
- Partnership with agencies and sharing of information (challenges)



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3) Professional money launderers- Facilitators of Money Laundering Operations in BC/Yukon

- often referred to as third party ML professionals

High threat due to:

- specialization in laundering POC for a fee

- In some cases, professional money launderings can be professional service providers (lawyers, real estate agents, bankers, lawyers) and MSB operators

- use occupation, business infrastructure and knowledge to facilitate money laundering for criminal clients

Subtopics:

- International money controllers are high threat as they control the international operations of ML through various countries. It is unknown, but suspected, that there are OC Groups in BC that are suspected to be international money controllers

- LE challenges regarding knowledge, intent and connectivity to the predicate offence

- International connectivity including connections to TNOC



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Table 2. Topics	<u>Strategic Priority</u>	<u>Considerations-Why? Details</u>	<u>Rank</u>
TBML	High	Already done	
MSB/ Alternative Money Remittance systems (Research was started for as a prior topic)	High	<p>High threat due to:</p> <ul style="list-style-type: none"> -There are BC providers that have OC Groups as clients (professional money launderers with MSB) in other provinces -OC groups in BC/Yukon has control over or directs ML operations for their own purposes and/or for others -Professional ML: Have known to operate MSB are often sought by TNOC Groups to facilitate ML operations -International reach and international scope <p>Subtopics:</p> <ul style="list-style-type: none"> -Registered MSB vs non registered MSB and how the MSB system is based on expectance to comply. There is no enforcement to comply or register your MSB. - Alternative money remittance systems (aka: hawala, hundi, chitti, and undiyal) used by OC groups and understanding the token system of Hawala. 	1
LE challenges of investigating & prosecuting Money Laundering	High	<ul style="list-style-type: none"> - Current challenges (burden of evidence, expertise, resources) - Future challenges - Issues with other countries ML legislation and foreign policies <ul style="list-style-type: none"> ▪ offshore companies and accounts ▪ foreign criminals can also use Canadian corporations and trusts to conduct money laundering ▪ foreign AML measures and effects of investigation ML - Charges and proceeding with offence-related property vs proceeds of crime - Seizure: civil forfeiture vs. criminal forfeiture - Partnership with agencies and sharing of information (challenges) 	2
Professional Money launderers-Facilitators (general overview)	High	<ul style="list-style-type: none"> -often referred to as third party ML professionals -specialize in laundering POC for a fee -in some cases, professional money laundering can be professional service 	3

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		<p>providers (eg, lawyers, real estate agents, bankers) and MSB operators</p> <ul style="list-style-type: none"> -use occupation, business infrastructure and knowledge to facilitate money laundering for criminal clients -international money controllers in BC? -LE challenges about knowledge, intent and connections to the predicate offence -international connectivity including connects to TNOC 	
Professional services providers (General overview - further broken down into other topics including: MSB, Lawyers, Real Estate [Mortgage Brokers, Real Estate Agents] Accountants)	High/Unknown	<ul style="list-style-type: none"> - individuals can be trained professionals, such as lawyers, notaries, accountants, financial industry advisors, real estate agents, goods traders or business owners; or facilitators operating MSB -various OC Groups use PSP as a medium to facilitate ML operations, unwittingly, while others are criminally inclined (proof of intent, knowledge is difficult) - there is potential that OC Groups have corrupted PSPs - could just be a subtopic of Professional money launderers - at the current time involved individuals is an information gap 	
International money controllers	High	<ul style="list-style-type: none"> -what BC-based OC groups are involved? -defining international money controllers -high threat as they control the international operations of ML through various countries: V3: Ongoing Investigation 	

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Private lenders/Non Federally regulated mortgage lenders	High	<ul style="list-style-type: none"> - mortgage lenders can be publicly-traded, privately-held or owned by private equity companies; wholly or partly owned by a Canadian federally regulated financial institution or by a foreign financial institution - include companies such as mortgage finance companies, real estate investment trusts, mortgage investment corporations, mutual fund trusts, syndicated mortgages or individuals acting as private lenders - purchasing property using a mortgage and making the mortgage payments using proceeds of crime - bypass reporting on PCMLTFA - private lenders and OC Groups V3: Ongoing Investigation 	
Businesses (General overview - further broken down to other topics including: shell and front companies)	High	<ul style="list-style-type: none"> - are there certain businesses susceptible to be used in ML operations? - cash only businesses - granite companies - import/export companies - overview of the mingling of legitimate funds with illicit funds to obscure the source - issues of information on beneficial ownership - shell and front companies 	
Casinos and Gaming	High	<ul style="list-style-type: none"> - Current projects in BC investigating this aspect V3: Ongoing Investigation - public visibility - various OC groups (listed in PTA) have been linked to using casino as a medium to complete some aspect of laundering POC - other gaming mechanisms including online gaming and horse racing - use of refining smaller bills to larger bills - illegal gaming house (non-regulated casinos) - extortion and loan sharking - the use of casino chips to transfer POC? - legislation changes and enforcement challenges 	
Extortion	High	<ul style="list-style-type: none"> - extortion is often conducted in conjunction with or in furtherance of other 	

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		<p>crimes, such as drug trafficking, illegal gambling and human trafficking</p> <ul style="list-style-type: none"> -Virtual kidnapping -OC groups systematically use extortion as a tool to obtain money- V1 - victims 	
Laundering proceeds of fentanyl trafficking	High	<ul style="list-style-type: none"> -FINTRAC involvement (Operational Alert) to support Project Guardian -helping business detect and report suspicious dealing that may be linked to illicit fentanyl 	
Real Estate	High	<ul style="list-style-type: none"> - methods to launder the POC through real estate transactions: purchasing or selling properties; accessing financial institutions through gatekeepers; assisting the purchase or sale of property; and using mortgage and loan schemes (DOF, 2018) - real estate brokers, sales representatives and developers (under PCMLTFA) vs. non regulated mortgage insurers, land registries and title insurance companies - public visibility V1 - 	
Human Trafficking (ranked lower due to limited information/no known OC Groups involved in BC)	Medium	<ul style="list-style-type: none"> -Project Protect (targets human trafficking for the purposes of sexual exploitation by focusing on the money laundering aspect of the crime) -online prostitution advertisement (issues such as Backpage.com) & is there a Canadian nexus 	
Movement of Cash	Medium	<ul style="list-style-type: none"> -overview of movement of cash including cash obtained from illicit activity & integration in legitimate channels -physical cash movement vs wire transfers (what is the norm? Is physical cash dying out) 	

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Criminal Intelligence Service BC/Yukon

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		-foreign currency regulations -virtual currency	
Mass Marketing Fraud (MMF)	Medium	<ul style="list-style-type: none"> - is very prevalent in Canada and Lower Mainland is considered a base of operation for MMF schemes; common types of scams in Canada include service scams, prize scams and extortion scams - use a range of ML methods and sectors, including smurfing, structuring, the use of nominees and money mules, shell companies, MSBs, the informal banking system and front companies - large # of victims - international reach - OCG in BC have been connected to MMF V1 [REDACTED] 	
Securities Dealers/ Stock Manipulation	Medium	<ul style="list-style-type: none"> -believed to be mainly used in the layering stage -securities traded over the counter are exchanged directly between entities rather than through an organized stock exchange -Use of off-book transactions, registered representatives, offshore accounts and nominees -OC nexus confirmed V1 [REDACTED] 	
ATM White Machines	Medium	<ul style="list-style-type: none"> -the use of privately automated teller machines -criminal actor or criminal directed nominee using to machine for placement stage of POC V3: Ongoing Investigation [REDACTED]	
Cybercrime and the use of virtual currency	Medium	<ul style="list-style-type: none"> -methods? -the use of the internet (predicate offences such as online prostitution, extortions and sales of drugs, weapons etc. on the Darknet) -the use of virtual currency as POC -the use of cryptocurrency machines for ML 	
High-Value Goods	Medium	<ul style="list-style-type: none"> - the use of high value goods such as automobiles, boats, yachts, art, 	

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Dealers (General overview - further broken down to automobiles, dealers in precious metal and stones)		antiques property, jewelry used instead on monetary instrument - laundering POC through such goods -the use of high value goods such as vehicles at the integration, possibly placement, phase of ML - lack of monitoring and reporting to FINTRAC, public visibility - legislation changes?	
Dealers in precious metals and stones	Medium	- securities dealers - the use of precious metals and stones as a form of trade - the value of diamonds/gold and issues with importing; what is the true value of importing diamonds in bulk	
Tax Evasion	low	-underpaying or evading the payment of taxes owing or to unlawfully claim refunds or credits -eg: Paradise papers -unconfirmed links to OC Groups	
FINTRAC and relationship with financial institutions	<u>low</u>	- reporting entities vs non reporting entities - enforcement limitations	
ML and foreign policies	low	-challenges of different jurisdictions -offshore companies and accounts -foreign criminals can also use Canadian corporations and trusts to conduct money laundering -foreign AML measures and effects of investigating ML	
Prepaid Cards	low	- the use of prepaid cards to refine and transport value - anonymous and portable - closed loop cards vs open loop cards	
Life Insurance	unknown	- life insurance companies offer a variety of vulnerable products and services, including wealth management and estate planning - dirty funds in the forms of checks, money orders or wire transfer to	

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		<p>purchase a life insurance policy and cash it out prematurely</p> <ul style="list-style-type: none"> -life insurance companies rely on third parties and independent brokers to sell their product -reporting entity under PCMLTFA -unknown re occurrences in BC 	
Corruption in Canada	unknown	<ul style="list-style-type: none"> - bribery of officials to facilitate ML by undermining AML measures - investigating offices or private sector compliance staff - international organizations, political influence - unknown activity by OC Groups in BC currently 	
Non-profit organizations	unknown	<ul style="list-style-type: none"> - unknowingly sending money abroad for ML or terrorist financing - are there links to OC? - not subject to PCMLTFA 	
Crowd Funding	unknown	<ul style="list-style-type: none"> -Low level sophistication -Creating fraudulent situations, victims send funds, creates need for ML 	
Wildlife Crime	unknown	<ul style="list-style-type: none"> -Low level sophistication -appears to be focused on immediately placing or integrating the proceeds for personal use 	

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CRIMINAL INTELLIGENCE
SERVICE
BRITISH COLUMBIA &
YUKON TERRITORY

Trade Based Money Laundering

PROTECTED “B”

October 2018



EXECUTIVE SUMMARY

Organized Crime (OC) groups in BC and Yukon are believed to use Trade Based Money Laundering (TBML) to facilitate their criminal operations. These OC groups will continue to transfer value across borders, evade detection, and launder the proceeds of crime in various countries, each have different financial legislation and policies regarding trade, which challenge LE investigations.

KEY FINDINGS

- TBML poses a high threat to BC and Yukon. There are OC groups in BC and Yukon that are involved in, or exhibit indicators of TBML (e.g. capability, knowledge, and transnational relationships to orchestrate TBML)
- The abuse of the international trade system is central to TBML¹ and involves techniques including: shipment manipulation, invoice fraud, and other complex methods
- There are indications that TBML is occurring within BC and YT, but, it might not be recognized, because TBML has not been the focus of police investigations and generally it is not well understood
- LE are faced with several challenges when investigating TBML including: that there is no formal system to investigate these complex schemes or to collect and share information and intelligence from various agencies and there are legislative differences between Canada and other countries

¹ Financial Action Task Force (FATF): Best Practices Paper- Best Practices on Trade Based Money Laundering, 20 June 2008, Unclassified, <http://www.fatf-afi.org/publications/fatfrecommendations/documents/bestpracticesontradebasedmoneylaundering.html>;

John A. Cassara, Trade-Based Money Laundering: The Next Frontier in International Money Laundering Enforcement. John Wiley & Sons, Inc. 2016.



BACKGROUND

In 2015, Canada's Department of Finance assessed TBML as posing a very high threat and reported that OC groups that are involved in this activity are sophisticated and capable with the "knowledge, expertise and international relationships to manipulate multiple trade chains."² The global economy provides enormous trade volumes, uses complex foreign exchange transactions, and provides the opportunity to commingle proceeds of crime and illicit funds with the cash flows of legitimate businesses.³ Canada has a high level of global trade, an open economy and stable financial system, making it susceptible to all kinds of money laundering⁴ including TBML.

What is TBML?

Money laundering (ML) is an essential process used by OC to finance their criminal operations. Criminals use sophisticated techniques to disguise the proceeds of crime (derived from predicate criminal offences) and attempt to integrate these funds into the legitimate economy.⁵ One of the main methods OC groups use to launder money is trade based money laundering (TBML). TBML is "the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimize their illicit origins"⁶. Often, TBML is not distinguished from other forms of ML in reports from various countries,⁷ so, the true global scope and the effects of TBML are unknown⁸.

² Department of Finance Canada, Assessment of Inherent Risks of Money Laundering and Terrorist Financing in Canada – 2015, p.20, Unclassified, <https://www.fin.gc.ca/pub/mltf-rpcfat/index-eng.asp>)

³ Financial Action Task Force (FATF):Trade Based Money Laundering, 23 June 2006, Unclassified, <http://www.fatf-gafi.org/publications/methodsandtrends/documents/trade-basedmoneylaundering.html>

⁴ Department of Finance Canada, Assessment of Inherent Risks of Money Laundering and Terrorist Financing in Canada – 2015, p.35, Unclassified, <https://www.fin.gc.ca/pub/mltf-rpcfat/index-eng.asp>); RCMP Anti-Money Laundering Strategy, Nov 10, 2015, protected A, p. 3.

⁵ Department of Finance Canada, Assessment of Inherent Risks of Money Laundering and Terrorist Financing in Canada – 2015, Unclassified, <https://www.fin.gc.ca/pub/mltf-rpcfat/index-eng.asp>- See Appendix 1 for ML Definitions

⁶ Financial Action Task Force (FATF):Trade Based Money Laundering, 23 June 2006, p.9, Unclassified, <http://www.fatf-gafi.org/publications/methodsandtrends/documents/trade-basedmoneylaundering.html>

⁷ Asia/Pacific Group (APG), APG Typologies Report on Trade-Based Money Laundering, 20 July 2012, <http://www.fatf-gafi.org/publications/methodsandtrends/documents/trade-basedmoneylaunderingttypologies.html>; John A. Cassara, Trade-Based Money Laundering: The Next Frontier in International Money Laundering Enforcement. John Wiley & Sons, Inc. 2016

⁸ Rena S. Miller, Liana W. Rosen, and Liana W. Rosen, Trade-Based Money Laundering: Overview and Policy Issues, Congressional Research Service, June 22, 2016, <https://fas.org/sgp/crs/misc/R44541.pdf>; V3: Ongoing Investigation



TBML involves both the misrepresentation of traded goods and services and the misuse of the international trade system⁹. The goods and services can range from low value items (e.g. used goods, household items, electronics, vehicles, etc.) to high value items (e.g. precious gems, diamonds, metals, etc.).

How does TBML work?

Criminals can buy and sell goods and services (both genuinely and fraudulently) using various techniques to transfer value, goods, and services and to evade financial intelligence reporting requirements¹⁰. The trade of goods and services can be used in any stage in money laundering (at the placement, layering or integration phases¹¹), although, TBML occurs primarily at the layering stage¹². Primary TBML techniques include shipping manipulation and invoice fraud¹³. Shipping manipulation techniques include over-shipping, under-shipping, and phantom shipping. Invoice fraud techniques include over-invoicing, under-invoicing, multiple invoicing, and falsely describing the goods and services. Using several entities (e.g. persons, geographical locations, and businesses) creates additional layers, making it difficult to detect TBML¹⁴. TBML is complex process which can involve multiple parties, and trade transactions can occur across multiple borders and in several countries, adding to the complexity.

TBML generally includes trade transactions through which the prices, quality, and quantity of goods and services are manipulated¹⁵. TBML is difficult to detect as neither the goods nor the shipping documents or invoices by themselves appear suspicious. It is when they are examined together that an otherwise innocuous shipment may appear suspicious. With the volume of

⁹ John A. Cassara, Trade-Based Money Laundering: The Next Frontier in International Money Laundering Enforcement. John Wiley & Sons, Inc. 2016; Financial Action Task Force (FATF): Best Practices Paper- Best Practices on Trade Based Money Laundering, 20 June 2008, Unclassified, <http://www.fatf-gafi.org/publications/fatfrecommendations/documents/bestpracticesontradebasedmoneylaundering.html>

¹⁰ John A. Cassara, Trade-Based Money Laundering: The Next Frontier in International Money Laundering Enforcement. John Wiley & Sons, Inc. 2016, p.28.

¹¹ John A. Cassara, Trade-Based Money Laundering: The Next Frontier in International Money Laundering Enforcement. John Wiley & Sons, Inc. 2016, p.14.

¹² V3: Ongoing Investigation

¹³ John A. Cassara, Trade-Based Money Laundering: The Next Frontier in International Money Laundering Enforcement. John Wiley & Sons, Inc. 2016, p.15.

¹⁴ Asia/Pacific Group (APG), APG Typologies Report on Trade-Based Money Laundering, 20 July 2012, <http://www.fatf-gafi.org/publications/methodsandtrends/documents/trade-basedmoneylaunderingttypologies.html>

¹⁵ John A. Cassara, Trade-Based Money Laundering: The Next Frontier in International Money Laundering Enforcement. John Wiley & Sons, Inc. 2016.



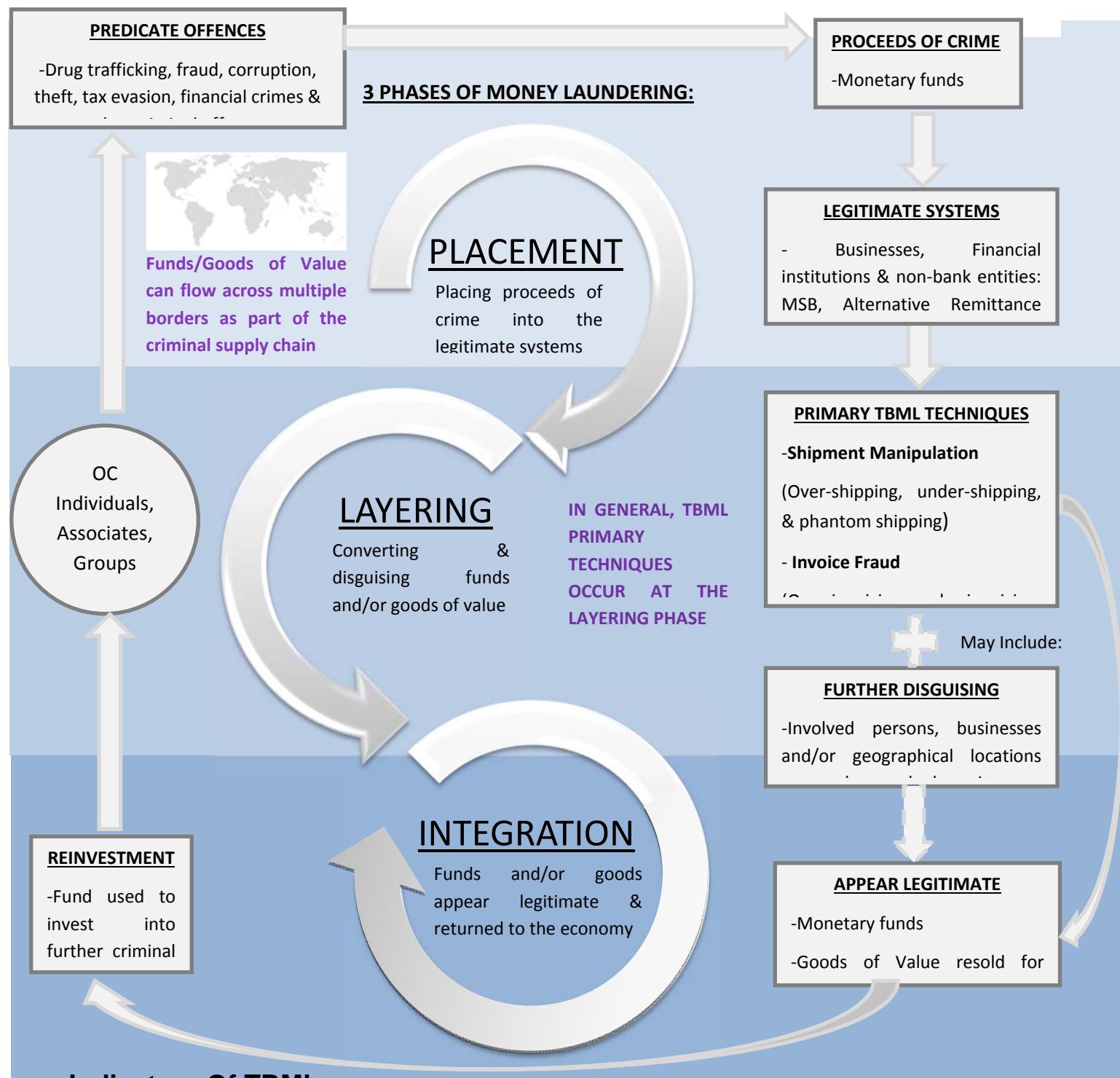
goods shipped it is impractical to check most shipments. Additionally, further techniques are often used by OC to introduce ambiguities and evade detection¹⁶. Once the goods and services are sold or exchanged, the profits can be used to finance other criminal operations (e.g. purchasing illicit drugs and weapons that are further sold).

Figure 1.0 (below) provides an overview of the TBML process and shows how the stages of TBML fit into the ML process. It also shows how OC groups can use their proceeds of crimes and goods of value to purchase other goods and services.

¹⁶ Asia/Pacific Group (APG), APG Typologies Report on Trade-Based Money Laundering, 20 July 2012, <http://www.fatf-gafi.org/publications/methodsandtrends/documents/trade-basedmoneylaunderingttypologies.html>



FIGURE 1.0 – GENERAL FRAMEWORK OF HOW TBML FITS INTO THE ML PROCESS



Sources include reports from various agencies by: Asia/Pacific Group (APG), EUROPOL Financial Intelligence Group, Department of Finance Canada, FATF, & FINTRAC. Literature used includes: Anti-Money Laundering in a Nutshell: Awareness and Compliance for Financial Personnel and Business Managers (Kevin Sullivan) & Trade-Based Money Laundering: The Next Frontier in International Money Laundering Enforcement (John A. Cassara).



INDICATORS OF TBML

Indicators of TBML activities include:

- Discrepancies between the description of goods (type, quality and quantity) on the invoices, bill of lading, and the actual goods
- Inconsistencies between the size of the shipment or the type of commodity and the scale of the exporter or importer's regular business activities
- Shipments that do not make economic sense (e.g. using an industrial shipping container to transport a small amount of relatively low-value goods)
- Shipping the goods to or from free trade zones (FTZs) or jurisdictions that are "high risk" for ML activities
- Trans-shipping through various jurisdictions for no apparent economic reason
- Using front or shell companies and/or third parties which have no apparent connection to the transaction¹⁷

¹⁷ Financial Action Task Force (FATF):Trade Based Money Laundering, 23 June 2006, Unclassified, <http://www.fatf-gafi.org/publications/methodsandtrends/documents/trade-basedmoneylaundering.html> ; Financial Action Task Force (FATF): Best Practices Paper- Best Practices on Trade Based Money Laundering, 20 June 2008, Unclassified, , <http://www.fatf-gafi.org/publications/fatfrecommendations/documents/bestpracticesontradebasedmoneylaundering.html>; John A. Cassara, Trade-Based Money Laundering: The Next Frontier in International Money Laundering Enforcement. John Wiley & Sons, Inc;



TBML in BC and the Yukon

TBML has not been actively pursued by Canadian investigative authorities in Canada,¹⁸ and there are limited Canadian cases specifically focused on TBML¹⁹.

There are only two OC groups in BC that have been noted to exhibit indicators of TBML

V3: Ongoing Investigation

20.

V3: Ongoing Investigation

¹⁸ V1

V3: Ongoing Investigation

¹⁹ V1

V3: Ongoing Investigation

²⁰ V3: Ongoing Investigation

²¹ V3:

²² V3:



Information and Intelligence Gaps

It is suspected that there are other OC groups in BC who are involved in TBML schemes, but the true scope of TBML in BC and Yukon is not well understood. In general, it is difficult to identify TBML and to distinguish it from legitimate trade. Law enforcement agencies in BC do not have a system of tracking and flagging TBML (e.g. in PRIME and other police databases)²³, V1

Challenges to Criminal Investigations Involving TBML

One factor is that Canada has no integrated system to detect, deter, investigate, or disrupt TBML²⁴. Although there are several anti-money laundering (AML) agencies and investigative bodies that could assist LE (e.g. CBSA, CRA, FINTRAC, banks, and agencies such as Export Development Canada and Global Affairs Canada which collect trade data)²⁵, each collects different data and has access to different information (e.g. financial transaction data, customs data, trade-related bank transfer information etc.) and relevant information is housed by more than one agency²⁶. For example, FINTRAC does not receive all relevant financial data such as electronic messages related to letters of credit, Electronic Funds Transfer Reports (EFTRs) under \$10,000, domestic EFTRs, transactions to and from foreign subsidiaries of Canadian financial institutions which are not ordered or received in Canada, and trade-related transactions handled by non-reporting entities (e.g. lawyers)²⁷.

²³ V1

²⁴ V1

V1

²⁵ Financial Action Task Force (FATF): Trade Based Money Laundering, 23 June 2006, Unclassified, <http://www.fatf-gafi.org/publications/methodsandtrends/documents/trade-basedmoneylaundering.html>; V1

; V1

²⁶ APG Typologies Report on Trade-Based Money Laundering, 20 July 2012, <http://www.fatf-gafi.org/publications/methodsandtrends/documents/trade-basedmoneylaunderingttypologies.html>; V1

V3: Ongoing Investigation

²⁷ V3: Ongoing Investigation



Customs agencies often have limited resources available to detect illegitimate trade transactions, providing the opportunities for OC groups to transfer value across borders, evade detection and launder proceeds of crime with a low risk of detection²⁸.

Differing legislation and trade policies allow OC to take advantage of lesser regulation and oversight that occurs in some countries²⁹. It is also difficult to monitor suspicious trade transactions due to the large volume of trade that can be co-mingled with legitimate trade.³⁰ Legitimate or illicit businesses may also misuse the international trade system³¹ for tax avoidance, tax fraud, customs fraud, and capital flight³² and it may be difficult to distinguish these (also illegal) activities from "true" TBML³³

TBML and Proceeds of Crime investigations are often lengthy, complex, and require specialized investigational teams, all of which strain police budgets and resources. LE investigations have been focused on the predicate offences, rather than on TBML, due to the difficulty in proving the source of illicit funds used in TBML schemes. One result is that TBML is not identified as an activity that OC groups may be involved in. That little post-investigative research takes place means that intelligence is not developed regarding the BC-based OC groups involved in TBML.

There is knowledge that TBML occurs, but the scope, and methods and techniques used by OC are not well understood by LE³⁴.

²⁸ Financial Action Task Force (FATF): Trade Based Money Laundering, 23 June 2006, Unclassified, <http://www.fatf-gafi.org/publications/methodsandtrends/documents/trade-basedmoneylaundering.html>

²⁹ V1

³⁰ John A. Cassara, Trade-Based Money Laundering: The Next Frontier in International Money Laundering Enforcement. John Wiley & Sons, Inc. 2016.

³¹ Financial Action Task Force (FATF): Best Practices Paper- Best Practices on Trade Based Money Laundering, 20 June 2008, Unclassified, <http://www.fatf-gafi.org/publications/fatfrecommendations/documents/bestpracticesontradebasedmoneylaundering.html>

³² John A. Cassara, Trade-Based Money Laundering: The Next Frontier in International Money Laundering Enforcement. John Wiley & Sons, Inc. 2016.

³³ Financial Action Task Force (FATF): Trade Based Money Laundering, 23 June 2006, Unclassified, <http://www.fatf-gafi.org/publications/methodsandtrends/documents/trade-basedmoneylaundering.html> ; John A. Cassara, Trade-Based Money Laundering: The Next Frontier in International Money Laundering Enforcement. John Wiley & Sons, Inc. 2016.

³⁴ V1

V3: Ongoing Investigation



APPENDIX:

DEFINITIONS	
Money laundering (ML):	Is a continuous process used by criminals to conceal or disguise proceeds of crime. There are three phases of ML.
Placement:	Is the first phase of the money laundering process whereby criminals try to place illicit funds, proceeds of crime and/or goods of values use various avenues including businesses, casinos in order for funds to be eventually placed into the legitimate financial system
Layering:	Is the second phase of the money laundering process whereby criminals try to convert and disguise illicit funds, proceeds of crime and/or goods of values through numerous transactions and possibly several entities such as persons or businesses
Integration:	Is the third phase of the money laundering process whereby the layering illicit funds, proceeds of crime and/or goods of values are returned to the economy with the appearing to be gained legitimately

Definitions	
Trade-based money laundering (TBML):	Is the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimise their illicit origins." There are several TBML techniques including methods involving shipment manipulation, invoice fraud and other complex methods
Shipment Manipulation Techniques	
Over-shipping:	Is a TBML technique where the exporter ships more quantity of goods and/or services and misrepresent the true value of the goods; gives value to the importer.
Phantom Shipping:	Is a TBML technique where an exporter may not ship any goods and/or services and conspire with the importer to ensure that documentation is processed
Under-shipping (short shipping):	Is a TBML technique where an exporter can ship less quantity of goods and/or services; therefore, the exporter receives value to the importer.
Invoice Fraud Techniques	
False descriptions	Is a TBML technique involves the misrepresenting the price of goods and/or services in order to transfer value between the parties involved. This involves creating a discrepancy between



of goods:	what appears or the quality of what is to be shipped and what is reported on custom documentation
Multiple invoicing:	This is a TBML technique that involves issuing more than one invoice for the same international transaction in order to justify multiple payments for the same shipment. This creates a complexity to the invoicing that could provide further explanation should the shipment be questioned including a number of legitimate explanations such as amendments to the shipment or payment of late fees.
Over invoicing:	The invoice(s) are manipulated so that the goods and services will be greater than the value received once the goods are sold on the open market. The exporter would be receiving value from the importer. The goods or services are overpriced above the "fair market price."
Under invoicing:	The invoice(s) are manipulated so that the goods and services will be lower than the value received once the goods are sold on the open market. Thereby the exporter gives value to the importer. The goods or services are underpriced below "fair market price."
Further Disguising: Criminals often use other methods to add an additional layer of complexity	
Alternative money remittance systems:	Are informal ways of transferring funds, which operate outside of the conventional financial sector, where value or funds are arranged for transfer, moving from one geographical location to another. Alternative money remittance systems are also known as informal value transfer services and may vary in term according to specific ties to ethnic communities and may also be referred to as black market peso exchange, hawala, hundi, chitti, and undiyal.
Free Trade Zones (FTZs):	Are areas within countries that offer free trade zones with minimum level of regulation and outside normal customs areas and procedures. Many zone authorities request little or no ownership, which allows for another layer of transactions and "lack of transparency" for companies located in FTZs.
Front companies:	Are companies that have real business whose legitimate operations are used as a cover for ML and other criminal activity and may present a much more significant TBML threat than shell companies." The use of nominees may be included to conceal the true ownership.
Nominees:	The use of family, friends or associates, whom facilitate the concealment of the source of funds or concealment of ownership by conducting transactions on behalf, therefore, the funds appear legitimate.
Professional money launderers:	Individuals specialize in laundering proceeds of crime and generally offer their services to criminals for a fee."
Shell companies:	Are companies that has no real operations and activities would lead to "an empty shell." Shell companies can be used to hide those ML activities as well as the individuals involved in the ML schemes and "obscure the money trail."



The above definitions were compiled from the following sources:

- Asia/Pacific Group (APG), APG Typologies Report on Trade-Based Money Laundering, 20 July 2012, <http://www.fatf-gafi.org/publications/methodsandtrends/documents/trade-basedmoneylaunderingttypologies.html>;
- Department of Finance Canada, Assessment of Inherent Risks of Money Laundering and Terrorist Financing in Canada – 2015, Unclassified, <https://www.fin.gc.ca/pub/mltf-rpcfat/index-eng.asp>;
- EUROPOL Financial Intelligence Group. Why is Cash Still King? 2015, <https://www.europol.europa.eu/publications-documents/why-cash-still-king-strategic-report-use-of-cash-criminal-groups-facilitator-for-money-laundering>;
- Financial Action Task Force (FATF): The Role of Hawala and Other Similar Service Providers in Money Laundering and Terrorist Financing, October 2013, <http://www.fatf-gafi.org/publications/methodsandtrends/documents/role-hawalas-in-ml-tf.html>;
- Financial Action Task Force (FATF): Trade Based Money Laundering, 23 June 2006, Unclassified, <http://www.fatf-gafi.org/publications/methodsandtrends/documents/trade-basedmoneylaundering.html> ;
- Financial Action Task Force (FATF): Best Practices Paper- Best Practices on Trade Based Money Laundering, 20 June 2008, Unclassified, <http://www.fatf-afi.org/publications/fatfrecommendations/documents/bestpracticesontradebasedmoneylaundering.html>;
- FINTRAC, Guideline 1: Backgrounder, Jun 2017, <http://www.fintrac-canafe.gc.ca/guidance-directives/overview-apercu/Guide1/1-eng.asp>;
- FINTRAC-Money Laundering and Terrorist Financing (ML/TF) Typologies and Trends for Canadian Money Services Businesses (MSBs), July 2010, Unclassified;
- Kevin Sullivan, Anti-Money Laundering in a Nutshell: Awareness and Compliance for Financial Personnel and Business Managers. Apress. 2015;
- John A. Cassara, Trade-Based Money Laundering: The Next Frontier in International Money Laundering Enforcement. John Wiley & Sons, Inc. 2016.



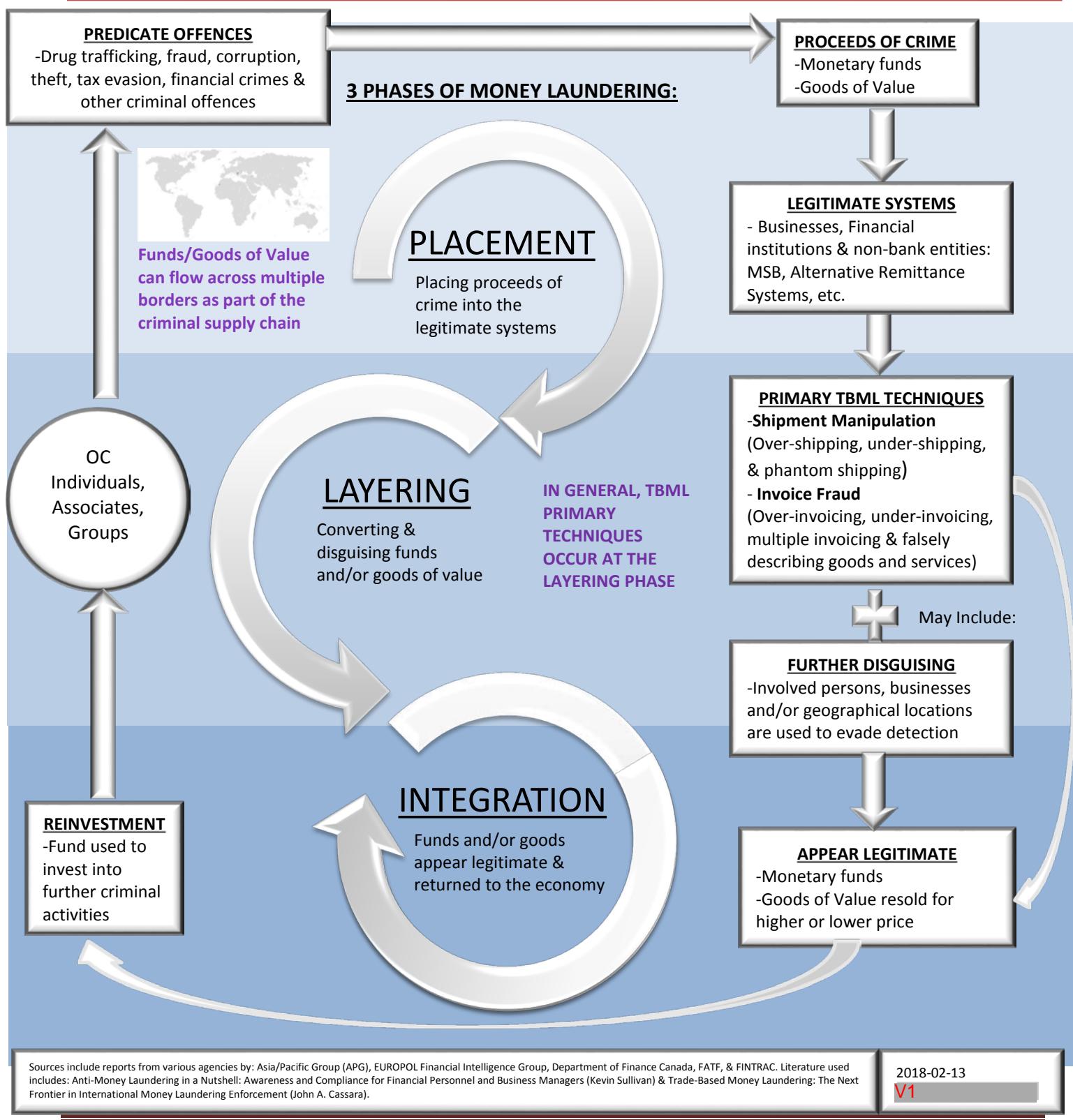
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V1



General Framework of how TBML fits into the ML Process



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OPERATIONAL ALERT

Reference number: 18/19-SIDEL-025

July 18, 2018

Professional money laundering through trade and money services businesses

Professional money launderers are sophisticated actors who engage in large-scale money laundering on behalf of transnational organized crime groups such as drug cartels, motorcycle gangs and traditional organized crime organizations. Professional money launderers sell their services to these groups and are involved in the majority of sophisticated money laundering schemes; they are not members nor are they involved in the predicate offences that generate illicit proceeds. As such, they present unique identification challenges.

While professional money launderers may be accountants, bankers or lawyers, current financial intelligence suggests that they often are owners of, or associated with, trading companies or money-services businesses. Professional money launderers use their occupation and knowledge, as well as the infrastructure associated with their line of work and their networks, to facilitate money laundering, providing a veneer of legitimacy to criminals and criminal organizations.

This operational alert provides indicators for money laundering carried out through trade and money services businesses. Entities required to report to FINTRAC should use these indicators on their own and in combination to identify potential professional money laundering activities. Reporting entities should also use these indicators in conjunction with a risk-based approach and other money laundering indicators. Financial institutions are especially well positioned to recognize and report on suspicious financial transactions that may be connected to professional money laundering. FINTRAC uses these indicators, along with other sources of information, to assess reporting entities' compliance with their reporting obligations.

Trade-based money laundering

Professional money launderers use trade transactions to legitimize proceeds of crime and move them between jurisdictions and between currencies. FINTRAC has observed two main schemes of this type.

- Schemes involving falsified customs, shipping and trade finance documents, including the following:
 - Phantom shipments: Transferring funds to buy goods that are never shipped, received or documented.
 - Falsely described goods and services: Misrepresenting the quality, quantity, or type of goods or services traded.
 - Multiple invoicing: Issuing a single invoice but receiving multiple payments.
 - Over/under invoicing: Invoicing goods or services at a price above or below market value in order to move money or value from the exporter to the importer or vice-versa.
- The Black Market Peso Exchange, which typically works as follows:
 - Transnational organized crime groups, such as Colombian or Mexican drug cartels, place proceeds of crime into the U.S. financial system through structured cash deposits (deposits that are organized to avoid record-keeping or reporting requirements) of U.S. dollars.

- A Colombian or Mexican importer buys those dollars from complicit brokers, paying for them in pesos.
- The importer uses the U.S. funds to purchase goods that are then shipped to Colombia or Mexico.
- The brokers return the pesos they received from the importer to the cartel.

There are many variations on the Black Market Peso Exchange—which is essentially a form of unregistered foreign currency exchange—involving locations other than Latin America, other criminal groups and other world currencies (although the U.S. dollar is the most common). The two versions FINTRAC observes most often are the following:

- Brokers send suspected illicit funds held in Latin America or the U.S. to Canadian trading companies, wholesalers, dealers and brokers via electronic funds transfer and, to a limited extent, cash courier. These entities subsequently send the funds to entities in multiple jurisdictions, including China, Hong Kong and the U.S., to pay for goods.
- Brokers send suspected illicit funds held in Latin America to U.S.-based entities of varying types, as well as to China- or Hong Kong-based trading companies, through electronic funds transfer via a Canadian financial institution acting as a correspondent bank.

Indicators of trade-based money laundering by professional money laundering networks

- An entity is a Canadian small or medium-size import/export company, wholesaler, dealer or broker operating in a sector dealing in high-volume, high-demand commodities with variable price ranges, including agri-food, textiles, electronics, toys, lumber and paper, and automotive or heavy equipment.
- The entity has business activities or a business model that is outside the norm for its sector, or conducts no business activities in Canada. It may also be difficult to confirm the exact nature of the business.
- The entity transacts with a large number of entities that have activities in the above-noted sectors or have names that suggest activities in a wide range of unrelated sectors, and also does some or all of the following:
 - receives a sudden inflow of large-value electronic funds transfers;
 - orders electronic funds transfers to the benefit of China- or Hong Kong-based trading companies or individuals, and receives electronic funds transfers from the U.S. and Latin American countries;
 - orders electronic funds transfers to the benefit of entities or individuals in the U.S., Mexico or Latin American countries, and receives such transfers from the U.S.;
 - orders or receives electronic funds transfers to/from entities holding a bank account in Latvia or Cyprus, and are registered to addresses in the U.K., Cyprus, the British Virgin Islands, Panama, the Seychelles, Belize, the Marshall Islands or other offshore financial centers; and
 - orders or receives payments for goods in round figures or in increments of approximately US\$50,000.
- A trading company based in the United Arab Emirates orders electronic funds transfers to the benefit of individuals or entities in Canada.
- An entity's U.S. dollar business accounts held in Canada exhibit flow-through activity—that is, money is taken or transferred out of the account as quickly as it flows in.
- An entity imports currency (predominantly U.S. dollars) from Latin American countries.
- An entity makes large business purchases by credit card, funded by overpayments.
- An individual issues cheques, purchases drafts or orders electronic funds transfers through the account of a legal professional for trade-related payments.

Money services businesses

Money services businesses provide a wide range of unique and valuable financial services to Canadians and international customers; however, the sector has unique challenges and risks with respect to money laundering. Most money services businesses engage in legitimate activities but some allow professional money launderers to exploit their services with their full cooperation. Others turn a blind eye to the fact that they are serving criminals. Professional money launderers who own or are connected to money services businesses use these entities to place and transfer illicit funds.

Indicators of professional money laundering through money services businesses

- A Canadian money services business does some or all of the following:
 - receives a sudden inflow of large electronic funds transfers and cash deposits; this is followed by an increased outflow of electronic funds transfers, cheques and bank drafts made out to multiple unrelated third parties for loans or investments, or to the individual conducting the transaction;
 - undertakes numerous currency exchanges involving Canadian and U.S. dollars and/or Euros;
 - carries out business largely with or through Iran or other countries subject to sanctions, the United Arab Emirates, Kuwait, Hong Kong, and China or countries with internal capital controls; and
 - receives electronic funds transfers from foreign exchange and trading companies based in the above-noted countries for real estate transactions, loans or investments.
- A money services business owner, associate or employee does some or all of the following:
 - maintains personal account activity similar to that of a money services business;
 - attempts to avoid reporting obligations when exchanging currency on behalf of another money services business;
 - lists multiple occupations, addresses and/or telephone numbers with financial institutions or online;
 - lists occupation as immigration consultant, student, homemaker or unemployed;
 - lives outside of their reasonable means (i.e., buys real estate beyond what they could reasonably afford on their claimed income);
 - attempts to close an account(s) to avoid due diligence questioning;
 - receives wires and transfers from multiple sources in accounts at numerous banks and credit unions; the individual then depletes these amounts through drafts payable to self or for real estate purchases;
 - places large structured cash deposits into the same account at multiple locations on the same day; and
 - is a customer at many banks and credit unions, and negotiates many self-addressed bank drafts from various financial institutions.
- A Canadian import/export company has account activity similar to that of a money services business, including the following:
 - receives one or two large electronic funds transfers and then orders multiple outgoing cheques and drafts to multiple third-party individuals and companies; and
 - receives large incoming electronic funds transfers from Iran, the United Arab Emirates, Kuwait, Hong Kong and China for living costs, expenses or spare parts.

Reporting to FINTRAC

To facilitate FINTRAC's disclosure process, please include the term **#pml** in Part G—Description of suspicious activity on the Suspicious Transaction Report. (See also, [STR guidance](#).)

Contact FINTRAC

- **Email:** guidelines-lignesdirectrices@fintrac-canafe.gc.ca (include Operational Alert 18/19-SIDEL-025) in the subject line)
- **Telephone:** 1-866-346-8722 (toll free)
- **Facsimile:** 613-943-7931
- **Mail:** FINTRAC, 24th Floor, 234 Laurier Avenue West, Ottawa ON, K1P 1H7, Canada

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FINTRAC Operational Alerts provide up-to-date indicators of suspicious financial transactions and high-risk factors related to new, re-emerging or particularly topical methods of money laundering and terrorist activity financing.



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Update on the CBSA Centre of Expertise on Trade Fraud and Trade-Based Money Laundering

Briefing to the Functional Management Operations Committee

January 2020

The image shows the official crest of the Royal Canadian Mounted Police (RCMP). It features a central shield divided into four quadrants. The top-left quadrant contains a red maple leaf, the top-right a white horse, the bottom-left a blue field with a white border, and the bottom-right a white field with a blue border. Above the shield is a golden-yellow maple leaf wreath. At the top of the wreath sits a detailed silver-colored RCMP crown. The words "ROYAL CANADIAN MOUNTED POLICE" are inscribed around the base of the wreath.

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Appendix Q



What is Trade-Based Money Laundering (TBML)?

- Process of disguising illicit financial flows and attempting to legitimize their origins through the trade in goods
- Believed to be the largest money laundering method in the world, also the least known and understood.
- Not about “traditional” customs duty and tax evasion
 - Launderers will pay duties and taxes if required
 - Goal: generate customs paperwork to backstop illicit money transfers between banks
- Front companies over/under-value quantity, quality, price of imports/exports, or mis-describe goods
- Shipping real goods not even necessary as long as the paperwork gets generated-> “phantom shipments”



TBML Risks to Canada

1. National Security:

- provides criminals and terrorists with relatively risk-free mechanism to repatriate narcotics, corruption and terrorist financing proceeds, and to evade international sanctions.

2. Reputation:

- Potential to further entrench the perception of Canada being “soft” on money laundering – “snow washing”.

3. Economic Security:

- Weakens the integrity of Canadian financial institutions.
- Can undermine legitimate economic competition.
- Distorts the trade data used by the government to make macro-economic policy decisions.

4. Revenue:

- May deprive countries of duty and tax revenue in certain circumstances

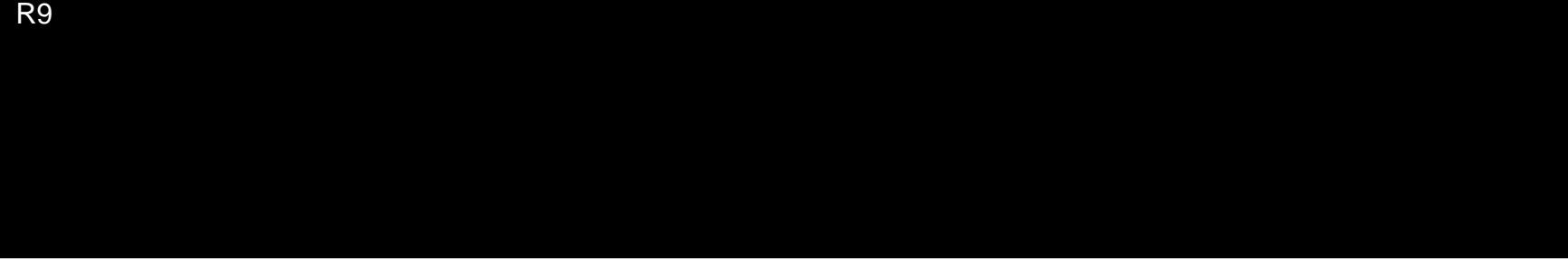


Background: Strengthening Canada's AML/ATF Regime

2016 Financial Action Task Force (FATF) Evaluation of Canada's Anti-Money Laundering and Anti-Terrorist Financing (AML/ATF) Regime

- Insufficient use of financial intelligence, data resources and information sharing to drive ML enforcement, including trade-based money laundering (TBML)
- Cross Border Currency Reporting Program penalties not sufficiently dissuasive to the bulk cash smuggling threat

R9

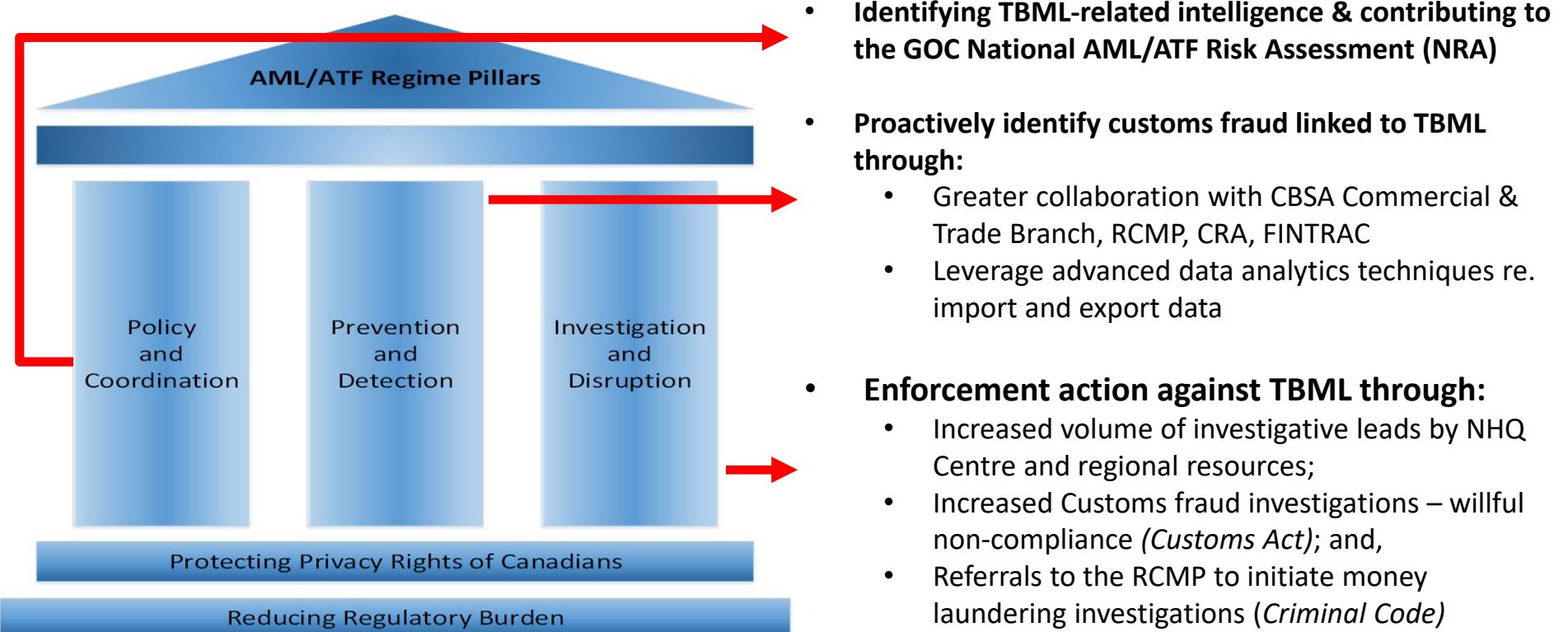
A large black rectangular redaction box covers the area from just below the 'R9' text to the 'Budget 2019' section.

Budget 2019

- GOC AML/ATF “Action, Coordination, Enforcement” (ACE) Team: top ML risks to Canada, including TBML
- CBSA Trade Fraud & TBML Centre of Expertise: identify and investigate the customs fraud underlying TBML in Canada



New AML/ATF Strategy & COE Mandate





COE Resource Outlay: 2020/21 to 2023/24

Budget 2019: approved to receive \$28.6 million over four years, \$10.5 million per year ongoing (All funding is in a Special Purpose Allotment)

Funding partially frozen:

- Full funding available for Year 1, Year 2. Partial funding for Year 3, Year 4 and ongoing:
 - **\$16 million**
- Full Year 3, Year 4 and remainder of ongoing funding frozen as of 2022-23 FY (frozen allotment)
 - **\$12 million**

Frozen funding to be released pending delivery of a baseline assessment capturing the scope and scale of TBML in Canada



Proposed Resource Allocation: Year 1/Year 2 (2020-22)

NHQ			GTA			QUE			PAC		
POSITION	Y1	Y2	POSITION	Y1	Y2	POSITION	Y1	Y2	POSITION	Y1	Y2
Manager (FB8)	1	0	Manager (FB6)	1	0	Manager (FB6)	0	1	Manager(FB6)	0	1
Senior Analyst	2	0	Intelligence Officer	1	0	Intelligence Officer	1	0	Intelligence Officer	1	0
Analyst	3	2	Intelligence Analyst	0	0	Intelligence Analyst	0	0	Intelligence Analyst	0	0
			Criminal Investigator	1	1	Criminal Investigator	0	1	Criminal Investigator	0	1
			SOTC	0	1	SOTC	0	1	SOTC	0	1
TOTAL	6	2		3	2		1	3		1	3
TOTAL by Y2	8			5			4				4
GRAND TOTAL (Y2)											21



Other Ongoing Activities

COE to be housed in the in the Intelligence and Targeting Directorate

FB08 Manager hired

- reporting to NHQ Director of Intelligence Collection, Analysis and Production, effective January 13th.

CBSA and RCMP exploring TBML-related intelligence development and investigative software offerings from Canadian vendors.

Collaborating with Public Safety and AML/ATF Regime partners on the establishment of the ACE Team

- Identification of information sharing opportunities and challenges that may impact on the ACE concept of operations.

Bulk Cash: (Finance Canada driven in consultation with Traveller Branch)

- Electronic cross-border currency reporting system
- Expanding definition of monetary instruments (potentially pre-paid cards)
- Increasing monetary penalties for currency infractions



Discussion



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Trade Fraud & Trade-Based Money Laundering Centre of Expertise

101 Overview

April 2020

The image shows the official crest of the Royal Canadian Mounted Police (RCMP). It is a circular emblem. The outer ring contains the Latin motto "PROTECTORUM PATRIAE POLICIA" in capital letters. The inner circle features a central shield divided into four quadrants. The top-left quadrant shows a red maple leaf, the top-right shows a white horse rearing up, the bottom-left shows a blue field with a white castle, and the bottom-right shows a white field with a red cross. Above the shield is a black maple leaf wreath. At the very top of the crest is a detailed silver RCMP crown.

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Authorities & Funding



Announced \$28M over four years (starting on April 1st, 2020) and \$10.5M per year ongoing (total 48 FTEs) for the creation of a “**Trade Fraud and Trade Based Money Laundering Centre of Expertise**”

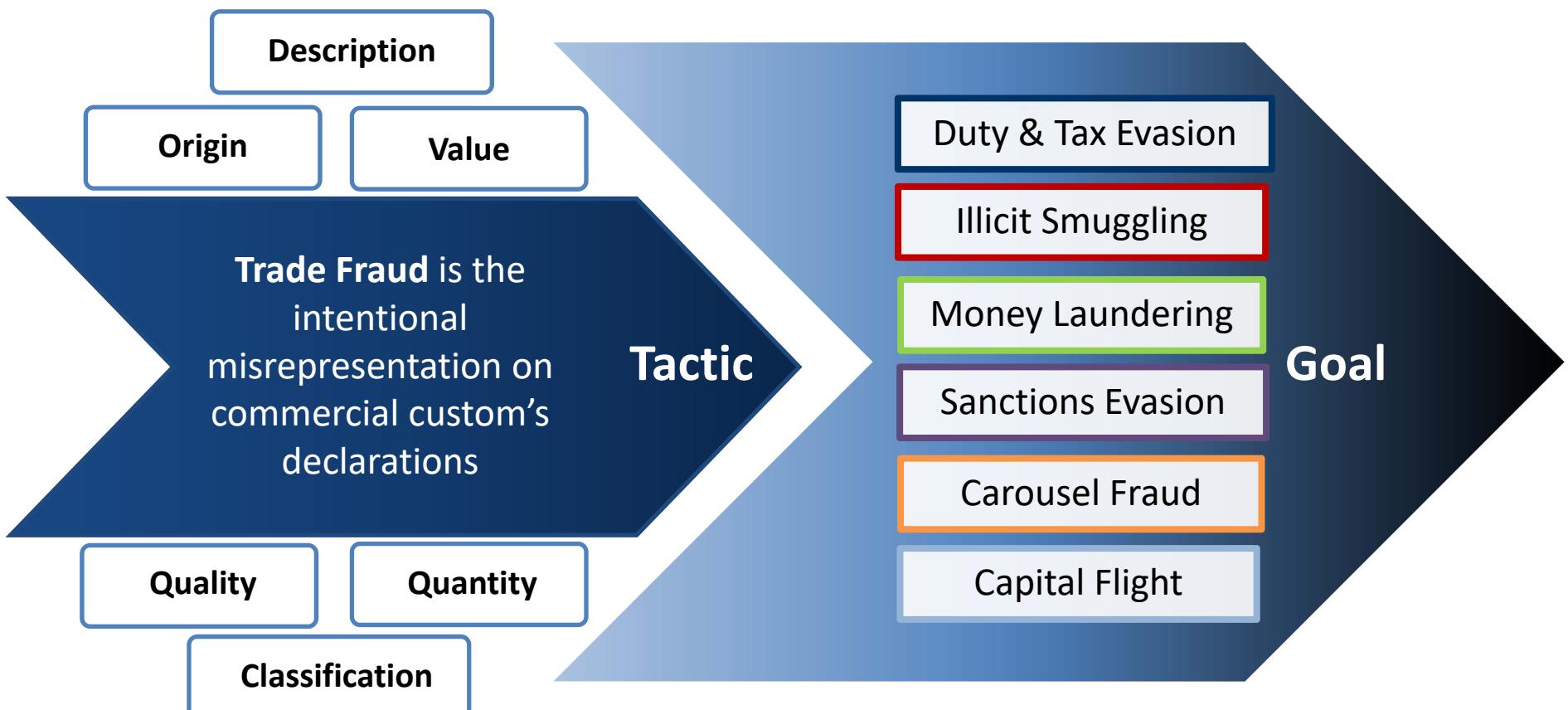
11 FTEs in 2020-21
+ 10 FTEs in 2021-22

21 FTEs to be funded on an ongoing basis

- ❖ Incremental funding starting in 2022-23 is frozen
- ❖ Report to President of Treasury Board required by March 2022 to unlock funding for additional 27 FTEs

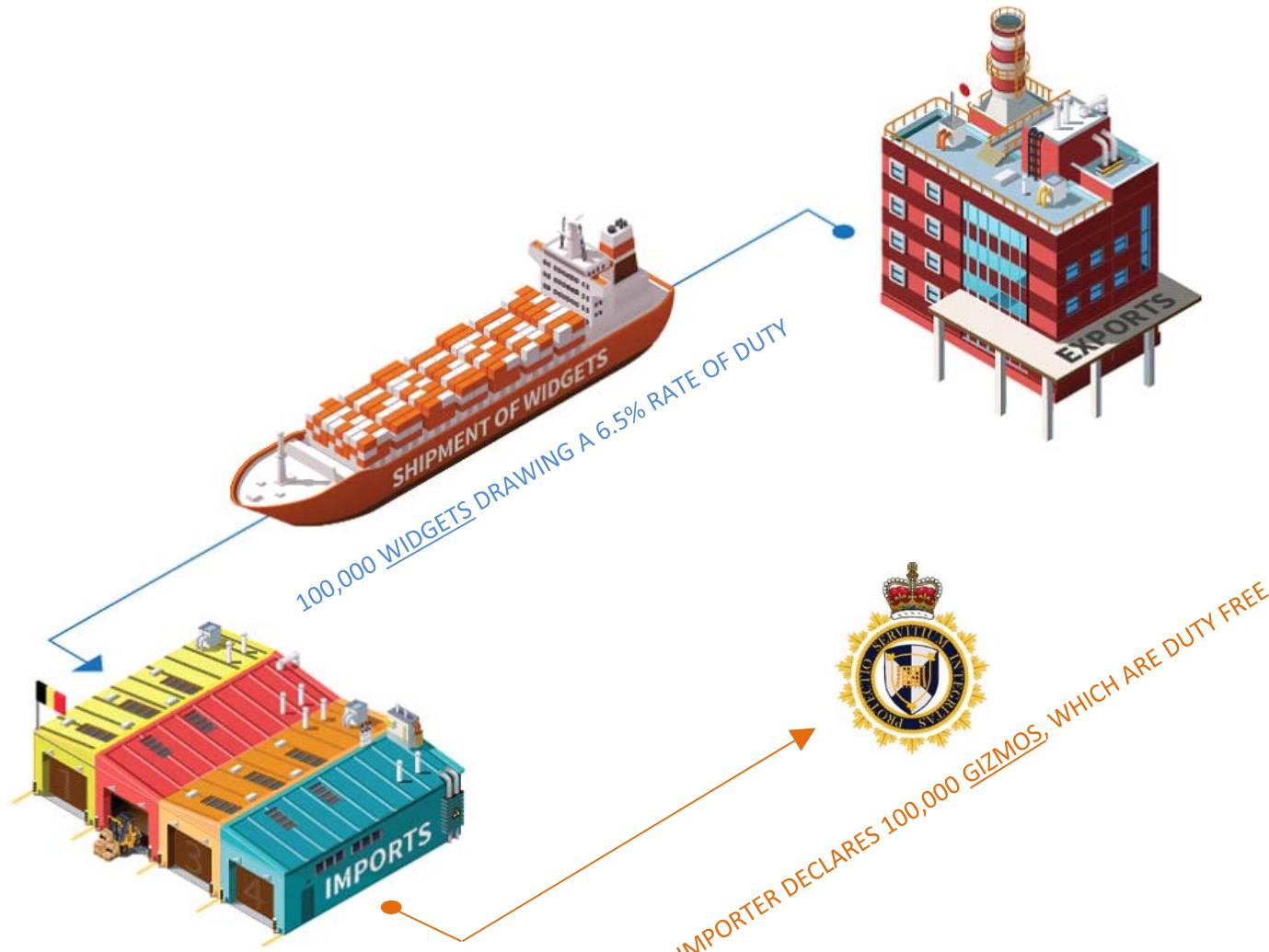


What are Trade Fraud and TBML?



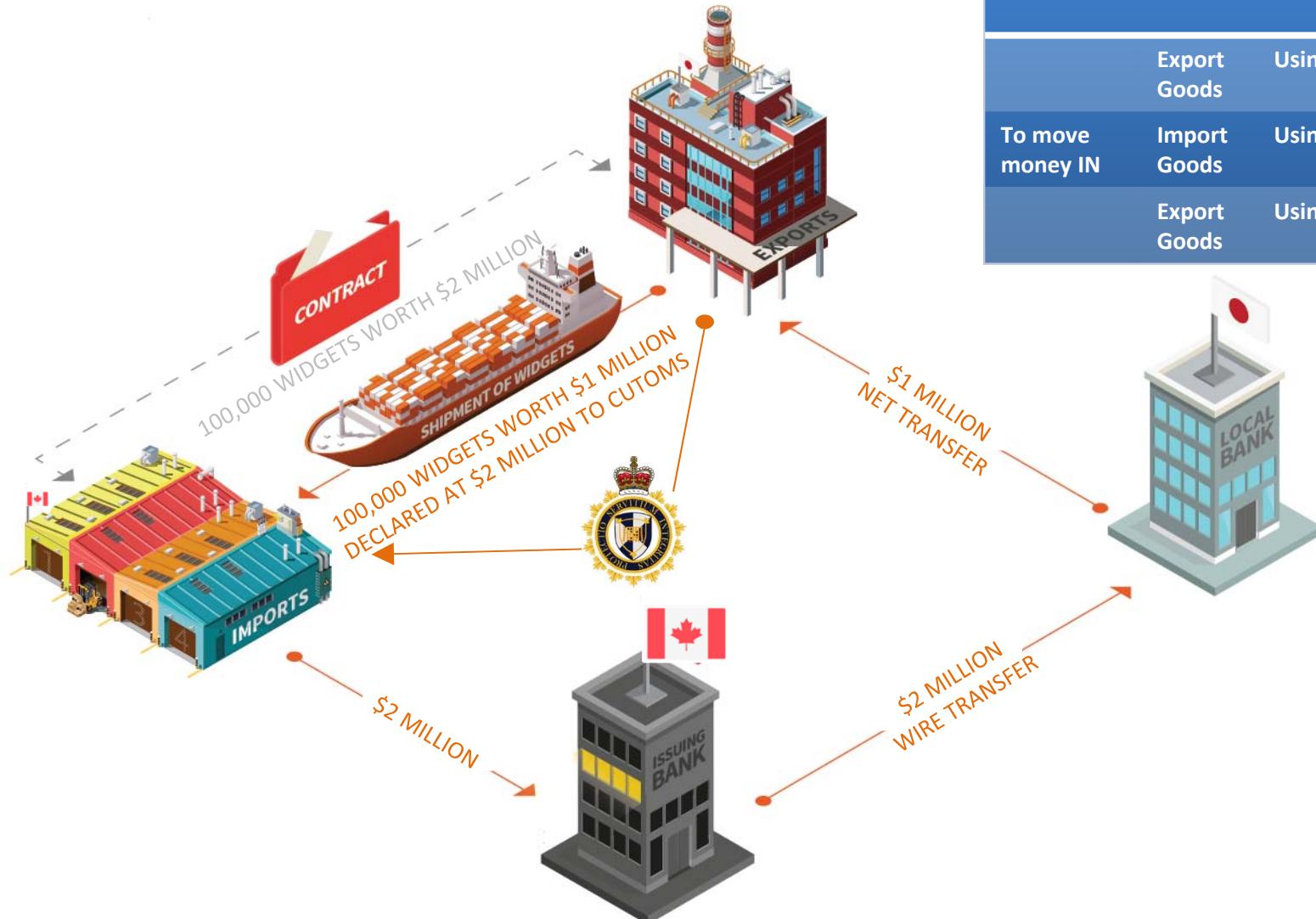


How Trade Fraud Works





How TBML Works



To move money OUT	Import Goods	Using above value prices
	Export Goods	Using below value prices
To move money IN	Import Goods	Using below valued prices
	Export Goods	Using above value prices

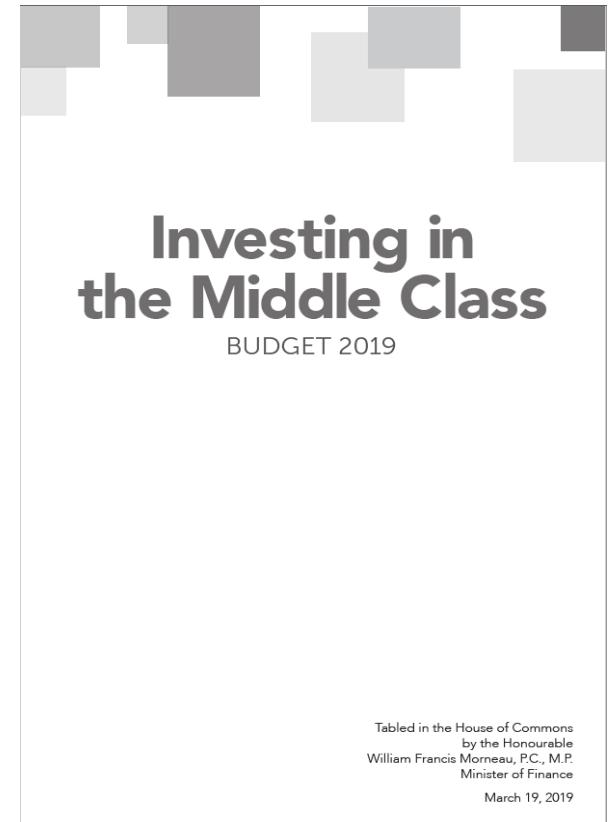
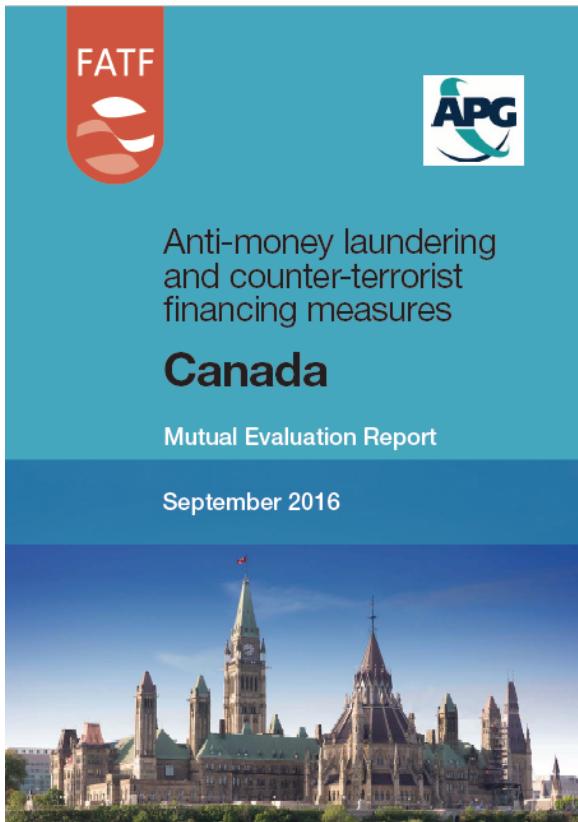


Trade Fraud Methods

Method	Description
Over Invoicing	By misrepresenting the price of the goods in the invoice and other documentation (stating it at above the true value) the seller gains excess value as a result of the payment.
Under Invoicing	By misrepresenting the price of the goods in the invoice and other documentation (stating it as below the true value) the buyer gains excess value when the payment is made.
Multiple Invoicing	By issuing more than one invoice for the same goods a seller can justify the receipt of multiple payments. This will be harder to detect if the colluding parties use more than one FI to facilitate the payments and or transactions.
Short Shipping	The seller ships less than the invoiced quantity or quality of goods thereby misrepresenting the true value of goods in the documents. The effect is similar to over invoicing.
Over Shipping	The seller ships more than the invoiced quantity or quality of goods thereby misrepresenting the true value of goods in the documents. The effect is similar to under invoicing.
Deliberate obfuscation of the Type of Goods	Parties may structure a transaction in a way to avoid alerting any suspicion to FIs or to other third parties which become involved. This may simply involve omitting information from the relevant documentation or deliberately disguising or falsifying it. This activity may or may not involve a degree of collusion between the parties involved and may be for a variety of reasons or purposes.
Phantom Shipping	No goods are shipped and all documentation is completely falsified.

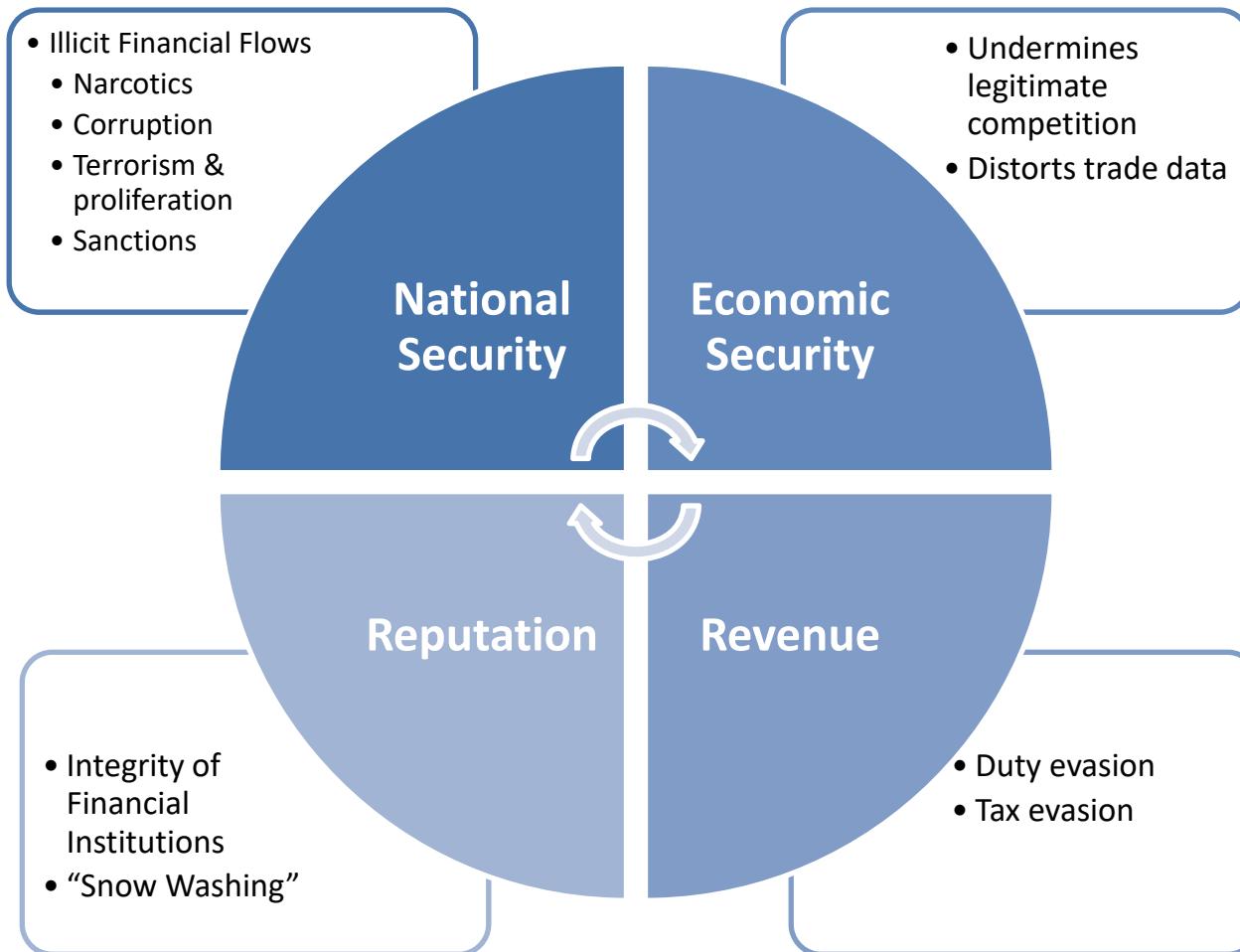


Strengthening Canada's AML/ATF Regime



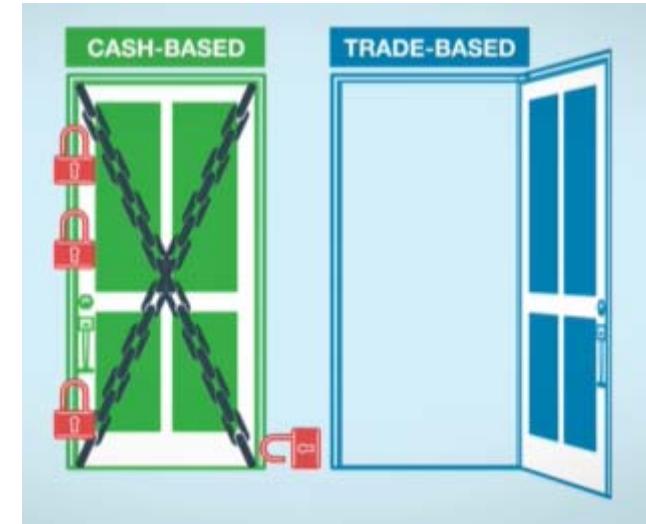


TBML Risks to Canada





Appeal of TF and TBML



Money Laundering Methods

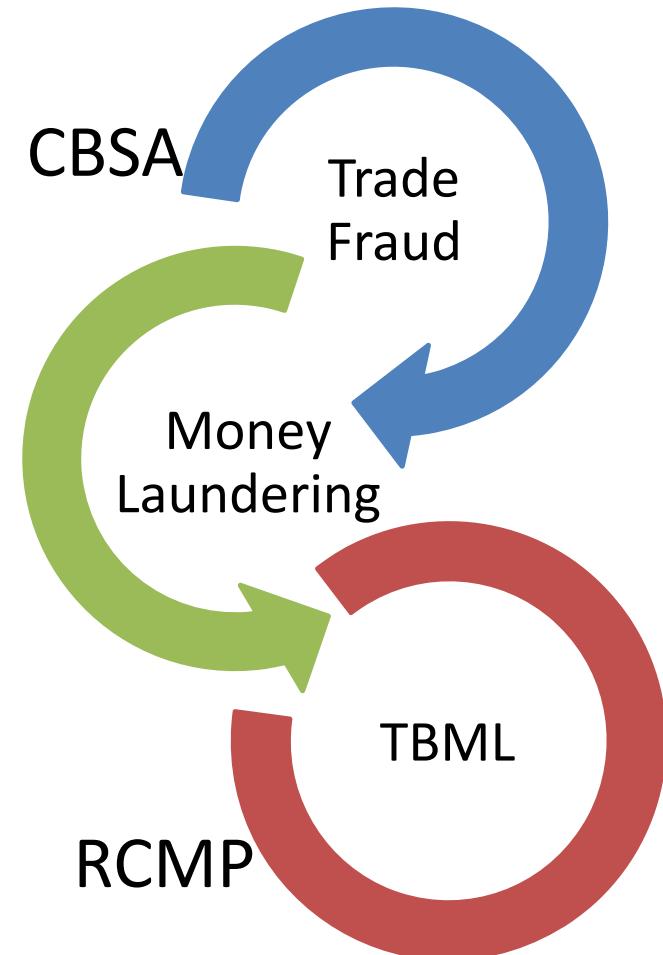
There are three primary money laundering methods

- Money laundering through financial institutions
- Bulk cash smuggling
- Trade-Based Money Laundering (TBML)



CBSA Roles and Responsibilities

TRADE FRAUD	TRADE-BASED MONEY LAUNDERING
<i>Customs Act (CBSA)</i>	<i>Criminal Code (Law Enforcement)</i>
Intent: to defraud national governments through customs “misinvoicing” aka “misdescription”	Intent: to disguise illicit financial flows and move value through the use of trade transactions in an attempt to legitimise their illicit origins
Method: manipulation of elements customs documents (aka trade fraud) such as: <ul style="list-style-type: none"> • Price paid • Quantity • National origin • Tariff classification • Physical description of the goods 	Method: trade fraud
CBSA = “TB”	RCMP = “ML”





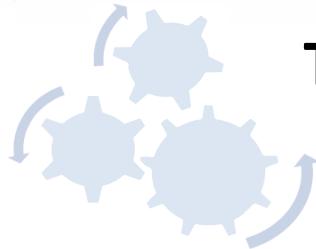
Government of Canada AML/TF Community



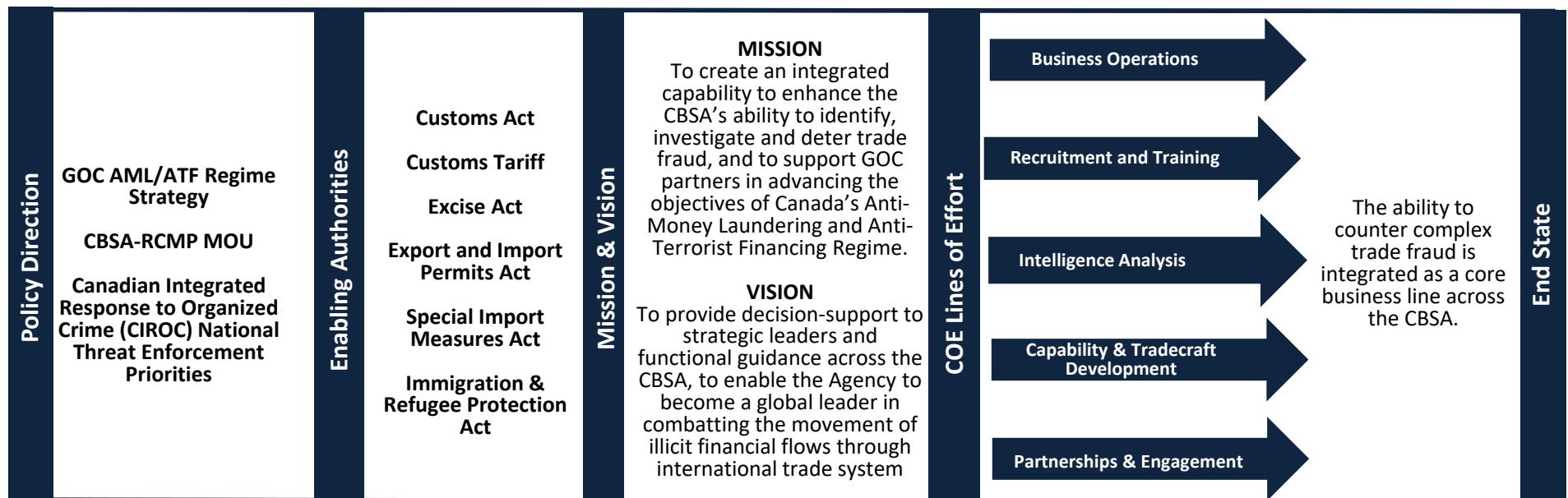


CBSA TF and TBML Community



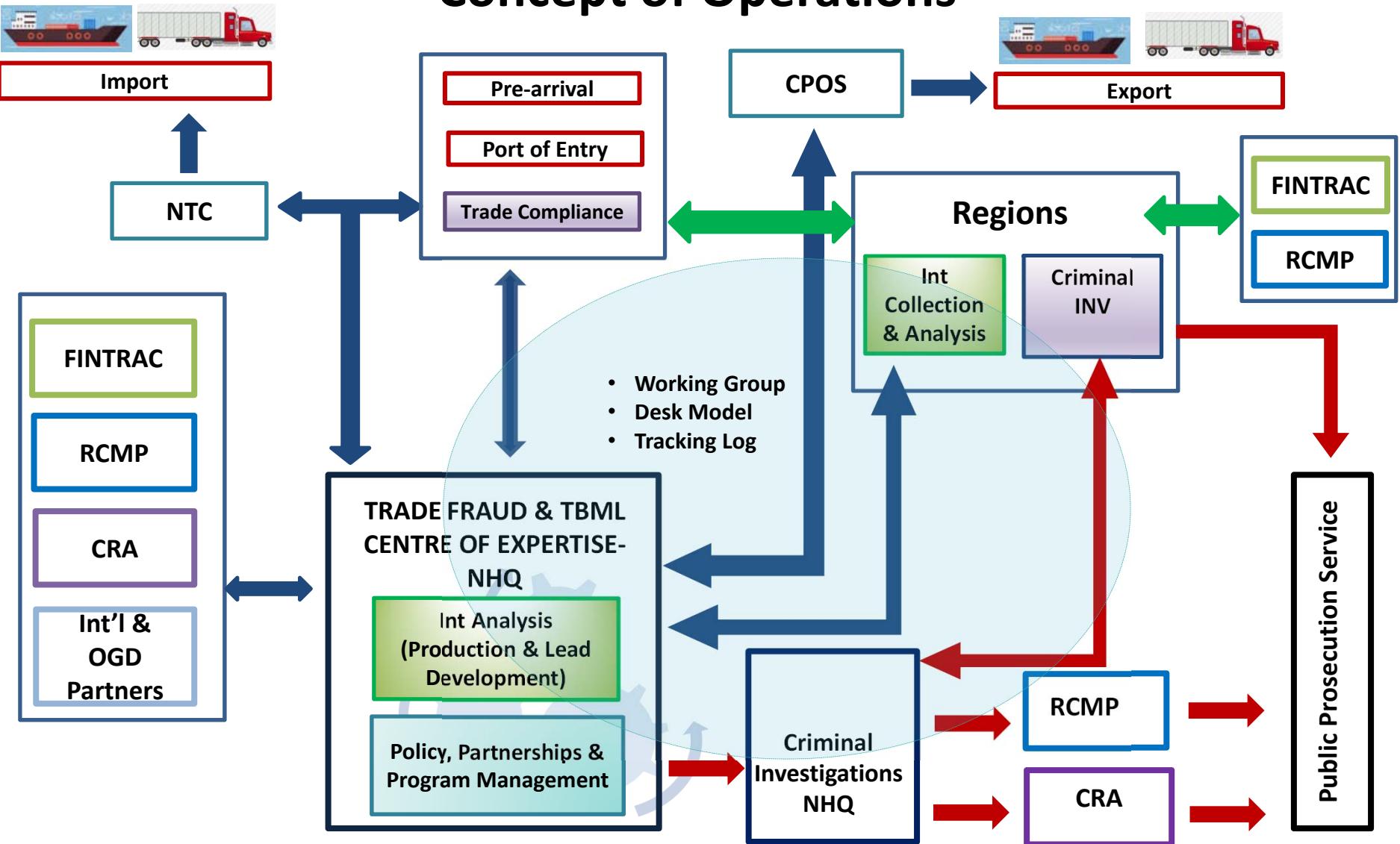


Trade Fraud and TBML Centre of Expertise Operating Framework





Concept of Operations





Central Coordination

What?

- Build a community of FB04-FB08 intelligence and investigative staff across the country who work on trade fraud/TBML files

Why?

- Maintain situational awareness on intelligence leads/projects/production and investigations across the country
 - Need to leverage scarce resources towards priority files (severity, potential)
 - Ensure INT probes a region is working on does not disrupt larger project
 - Coordinate on projects across jurisdictions
 - Identify trends
 - Support investigations anticipate workload based on intelligence files being developed
- Create community to build knowledge (e.g. training opportunities - HSI)

How?

- Monthly Management calls (corporate focus)
- Monthly Desk calls (analytical focus)
- Deep dive project calls as required
- Tracking log (leads, projects, referrals, investigations)
- Generic COE mailbox that all trade fraud referrals will be sent to
 - Triage at NHQ (nexus, prioritization) and farm our to regions



Lines of Effort

LOE 1: Business Operations

- Working Group / Desk Model / Track Log
- Results Table
- Financial set-up
- Establish lanes (INT analyst vs CI analyst)
- Webpage

LOE 2: Recruitment & training

- Staffing 75% complete
- TBML Intelligence training
- Financial forensic accounting training - FAMG
- HSI training/seminar

LOE 3: Intelligence Analysis

- Production Plan
- Intelligence lead development (& spin-off plan to the regions for projects)

LOE 4: Capability & Tradecraft Development

- Panjeeva – info from trade chain participants (bills of lading)
- Leveraging CPOS target on export capabilities
- Data analytics

LOE 5: Partnerships

- HSI (Embed, training, biweekly call)
- CRA
- FAMG
- PS/RCMP – Integrated Proceeds of Crime model
- CBSA:
 - CDO
 - Trade – CARM
 - Risking Model

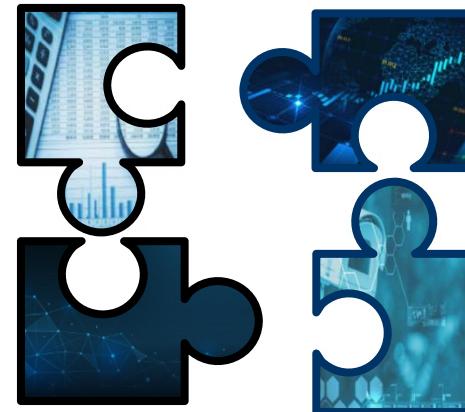


Data Analytics

Data Rich but Knowledge Poor

Trade Chain	Non-Governmental
<ul style="list-style-type: none"> • Foreign customs data • Foreign company information • Bills of Lading • Shipping Invoices 	<ul style="list-style-type: none"> • Egmont Group • Investigative Journalists databases Organized Crime and Corruption Reporting
Intelligence	Customs
<ul style="list-style-type: none"> • Financial (FIU) • Criminal • SIGINT • HUMINT 	<ul style="list-style-type: none"> • Import/Export declarations

Humans doing work that a machine could
(layering of data)



Data Analytics provides sophisticated intelligence development and analysis capabilities that can:

- Automatically pull, combine and validate data on individuals and companies from multiple CBSA, GOC and external data sources to develop a fuller picture of potential intelligence targets;
- Automate network generation and analysis in order to identify hidden actors and relationships between threat actors from these various data sources (e.g. tying together customs data, open source shipping data, and financial intelligence from FINTRAC that reveals new information about potential criminal activity)
- Identify broad trends in threat actor behaviours (when provided with enough intelligence information over time).
- Conduct aggregate analysis of trade data to proactively identify anomalous transactions indicative of criminal activity.



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Trade-Based Money Laundering 101

Joel Gibbons

Intelligence & Enforcement Branch

CBSA NHQ

Delivered to: CBSA Liaison Officers

June 5, 2019

Rigaud QC



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Agenda

1. International & Canadian context
2. TBML Tradecraft
3. Current Canadian TBML Environment
4. Examples of Observed Schemes
5. Red Flag Indicators
6. Liaison Officer TBML Support





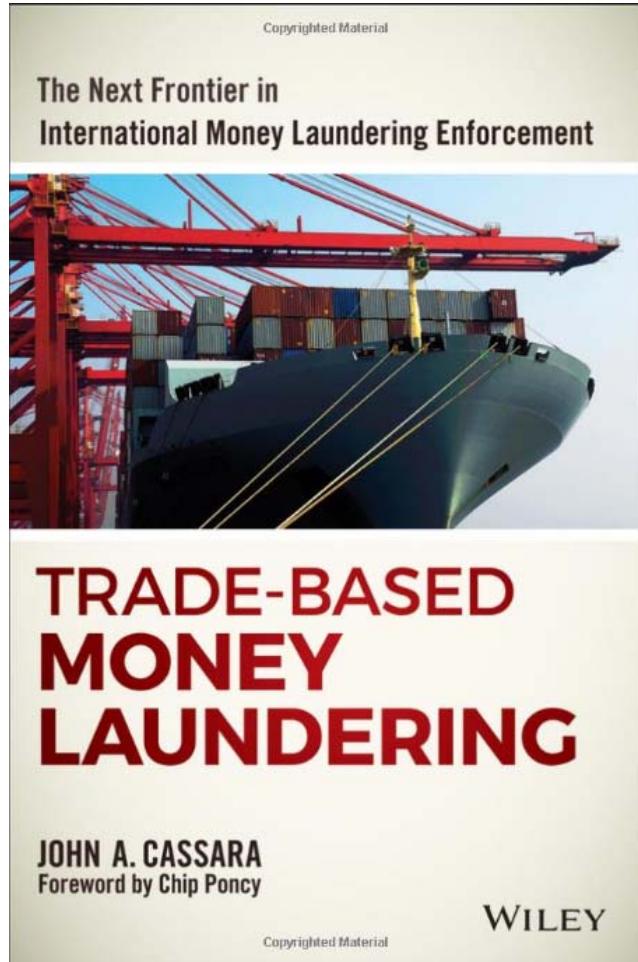


Money Laundering Methods

1. Financial Institutions	Paper trail, high AML controls
2. Bulk Cash	High risk of detection
3. Trade	Low risk, high reward

Working Definition of TBML

The process of disguising illicit financial flows and move value through the use of trade transactions in an attempt to legitimise their illicit origins



"The magnitude [of TBML] is enormous. It could very well be the largest money laundering methodology in the world! And, unfortunately, it is also the least understood and recognized."



International Context: High Risk

- Exponential growth of global trade creates huge opportunity
- Trade not seen as an ML vector
 - Most AML \$ are spent on traditional ML
 - Low awareness leads to lack of controls
- Low risk, high reward:
 - Easy to comingle legitimate and illicit trade in same shipment
- “Essentially unquantifiable... but enormous” problem (PWC report)
 - WTO & UNODC: 1-7% of global GDP
 - Cassara: 6-9% of US GDP (\$220B USD outbound and \$340B USD inbound)
 - Global Financial Integrity (NGO):
 - NAFTA: USD \$561B in illicit capital outflows from 1994-2010 perpetrated via customs mis-invoicing
 - Mexico: 75% of USD \$852B in illicit capital outflows from 1970-2010 perpetrated via customs mis-invoicing
 - Developing World: \$8 trillion USD in illicit capital outflows from 2004-2013. 83% likely perpetrated through customs mis-invoicing

A TYPICAL MONEY LAUNDERING SCHEME



Source:
ACAMS, Bank
Negara, Bloomberg,
UNODC, and
various others

THE COST OF DIRTY MONEY

JPMorgan Chase

FINED US\$2.05bil

For 15 years or so, JPMorgan ignored red flags surrounding the dealings of Wall Street financier Bernard Madoff, who used his account at the bank to run a US\$65bil Ponzi scheme, the largest ever uncovered in the US.

Citigroup

FINED US\$237mil

From 2007 till 2012, Banamex USA, a Citi subsidiary, processed more than US\$8.8bil in transactions with almost no oversight.

Wachovia

FINED US\$160mil

Mexican drug cartels used accounts at Wachovia to finance their operations and launder money.

Liberty Reserve

The digital currency platform was central to an alleged US\$ 6bil money laundering operation. In 2016, U.S. authorities sentenced its founder, Arthur Budovsky, to 20 years in prison for running a money laundering enterprise via the Costa Rica-based platform.

Standard Chartered

FINED US\$967mil

In 2012 the bank paid US\$667mil in fines for violating US sanctions on doing business with Iran. In 2014, New York state fined it an additional US\$300 mil for weak AML controls.

HSBC

FINED US\$1.9bil

Bank failed to monitor properly over US\$670bil in wire transfers from Mexico and more than US\$9.4bil in purchases of US currency, according to a 2012 deferred prosecution agreement with US authorities.

ING

FINED US\$900mil

In 2018, the bank acknowledged "serious shortcomings" in failing to prevent illicit payments by VimpelCom (now known as VEON) to a company owned by an Uzbek government official.

Danske Bank

In September the bank said about €200bil (US\$230bil) in potentially illegal funds flowed through its tiny Estonian unit over nine years.

Commerzbank

FINED US\$1.45bil

From 2002 to 2008, the bank processed more than US\$250bil in transactions on behalf of Iranian and Sudanese entities.

Deutsche Bank

FINED US\$670mil

In 2017, US and British authorities fined the bank for a series of mirror trades conducted through its Moscow office. The trades allowed Russians to expatriate billions of dollars by buying stocks with rubles at home and selling the same shares in London for dollars or euros.

Bangladesh Hackers

Hackers stole US\$81mil from the central bank of Bangladesh in 2016. The thieves used Swift, the global interbank payment system, to issue bogus instructions to withdraw.

Malaysia

1MDB

From 2009 through 2015, more than US\$4.5bil flowed from this government fund into the hands of allegedly corrupt officials and their associates.

Commonwealth Bank of Australia

FINED A\$700mil

The bank in June paid the biggest civil penalty in Australian corporate history after admitting to more than 53,000 breaches of money laundering laws, allowing drug syndicates to funnel millions of dollars offshore.

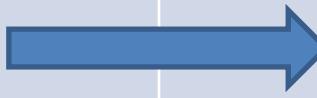


Current Canadian Context: High Risk

- Magnitude of the threat:
 - hundreds of millions annually – at a minimum
- Low awareness, limited controls
- High level of harm for Canada and Canadians
 - Threatens economic integrity, public safety, and Canada's reputation



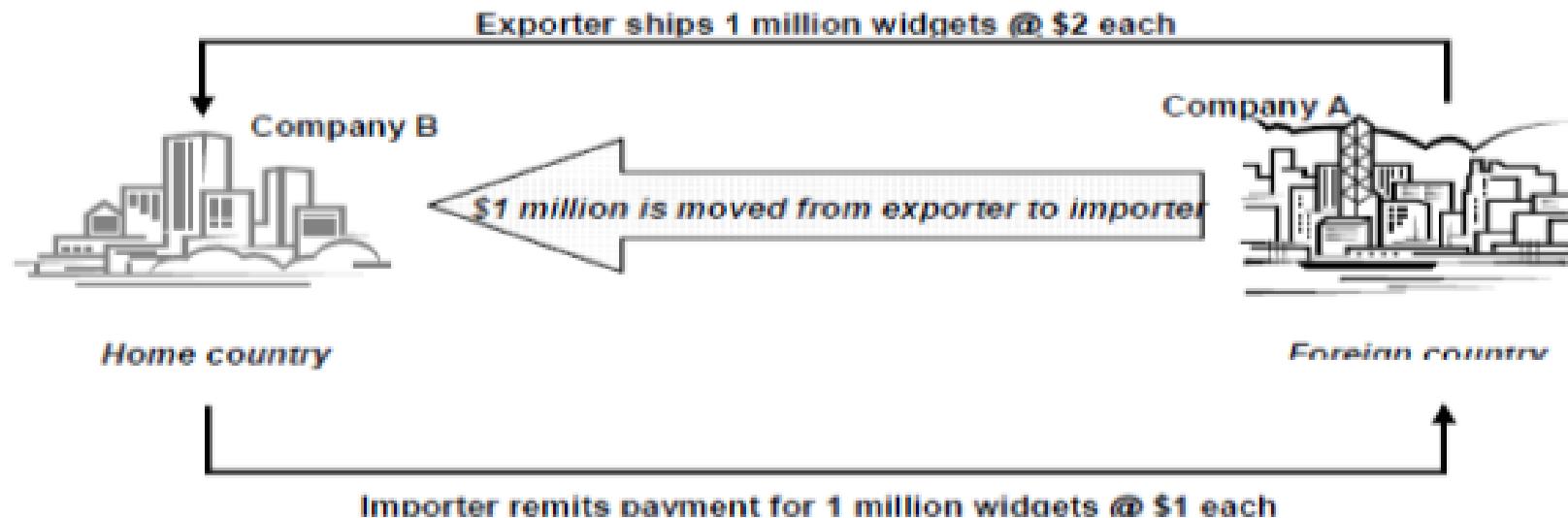
Trade Fraud Underlies Most TBML

TRADE FRAUD	TRADE-BASED MONEY LAUNDERING
<i>Customs Act (CBSA)</i>	<i>Criminal Code (Law Enforcement)</i>
Intent: to defraud national governments through customs “misinvoicing” aka “misdescription”	Intent: to disguise illicit financial flows and move value through the use of trade transactions in an attempt to legitimise their illicit origins
Method: manipulation of elements customs documents such as: <ul style="list-style-type: none">• Price paid• Quantity• National origin• Tariff classification• Physical description of the goods	Method: trade fraud 



1. Under/Over Invoicing of Goods

(source: FATF)



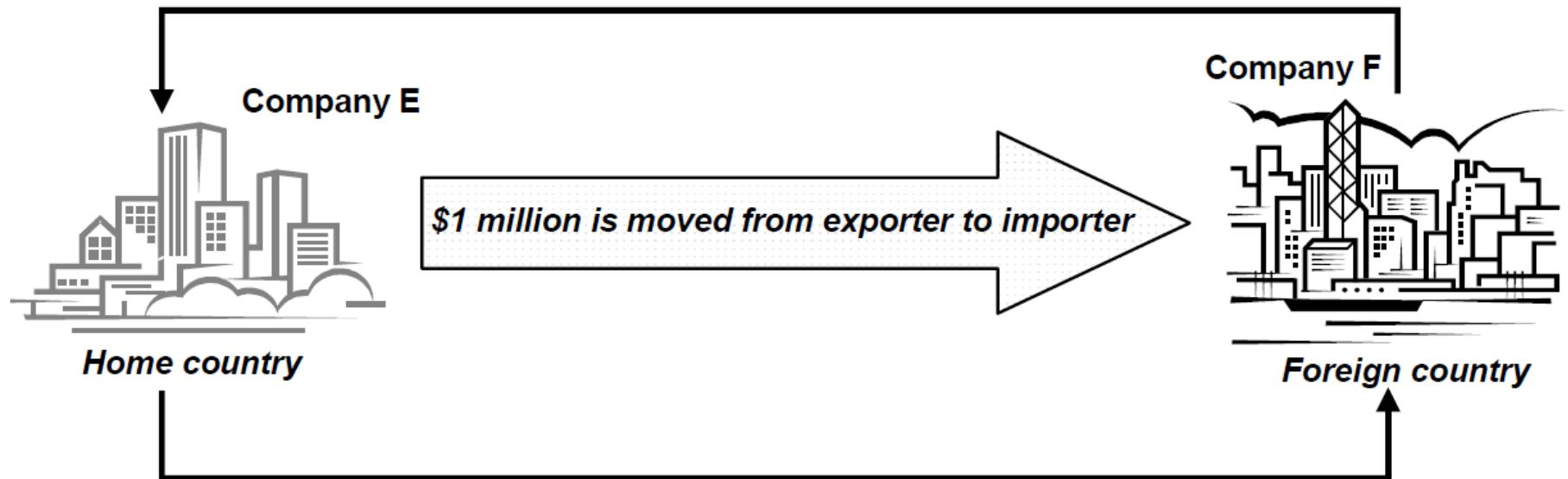
SUMMARY (source: Cassara)

To move money OUT	Import Goods	Using above value prices
	Export Goods	Using below value prices
To move money IN	Import Goods	Using below valued prices
	Export Goods	Using above value prices



2. Over/Under Shipment of Goods

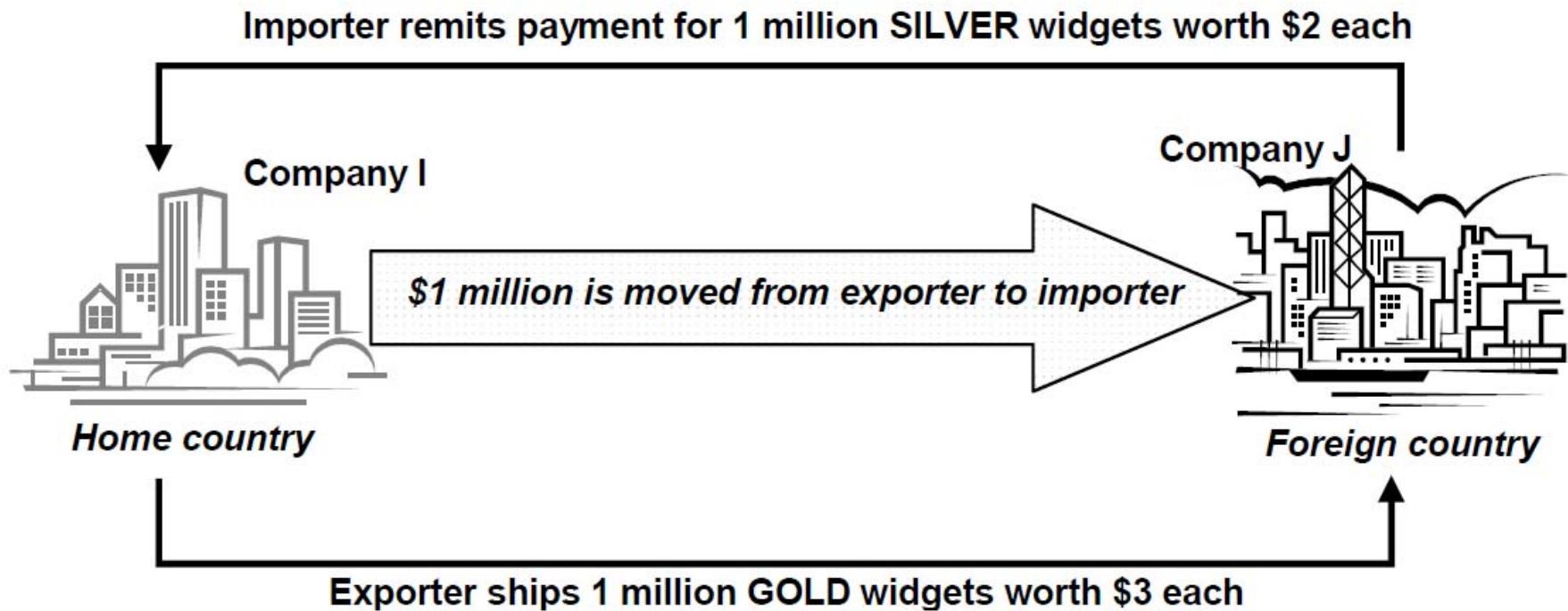
Importer remits payment for 1 million widgets @ \$2 each



- The most extreme cases involve “phantom shipments” where no goods are shipped, but shipping/customs documents are processed as normal.



3. Falsely Described Goods



- A money launderer may misrepresent the quality or type of the trade goods; e.g. substituting an inexpensive product for the more expensive item listed on the invoice and customs documents.



Current Canadian TBML Environment

- Key jurisdictions
- Highly liquid, high-demand goods
- Professional Money Launderers prevalent
- Black Market Peso Exchanges
- Informal Value Transfer Service links to International Money Controller Networks



Key Jurisdictions

- UAE
- China and Hong Kong
- U.S.
 - New York
 - South Florida
 - Southern California
- Latin America
 - Mexico
 - Colombia
 - Paraguay / TBA: Ciudad del Este
- Russia related
 - Baltics: RUSSIAN LAUNDROMAT, TROIKA
 - Cyprus (professional services)
 - BVI and other offshore jurisdictions (shell company formation)
- Canada?



Canada

- Canada attractive to launder both through and to/from
 - TOC proceeds generated in CDA – cash pickups
 - TOC Proceeds from US: Mexican/Colombian DTOs laundered through CDA to Latin America, Oceania, Asia
 - Sanctions evasion- Iran
 - Capital flight – PRC



Goods Exploited

- Highly liquid, high-demand goods
 - pricing/fair market value difficult to establish
 - Difficult for authorities to examine
- Agri-food (meats, dairy, produce)
- Vehicles and parts
- Textiles/Garments
- Lumber/Pulp and Paper
- Industrial Equipment
- Metal scrap
- Electronics



Professional Money Launderers

- Skilled facilitators of laundering
- Distanced from the proceeds generating offences
- Linked to professions conducive to laundering
 - Lawyers
 - Accountants
 - Own/control import-export companies
- Often ethnic based – stemming from *hawala* and *fei chen*
 - Developed contact base in Middle East, Asia
- Fee for service
 - Fees dependent on access to domestic cash pools



Black Market Peso Exchanges

- Solves several problems for criminals:
 - Gets profits back home in local currency
 - Illicit foreign currency exchanges
 - Helps International Money Controllers balance books
 - Goods used to “buy money” from other IMCs around the world and resolve outstanding payments owed between international cash pools
- Multiple variants on the technique



TBML - BMPE

Cartels



Source: FinCEN Graphics



TBML - BMPE Brokers



Source: FinCEN Graphics



TBML - BMPE

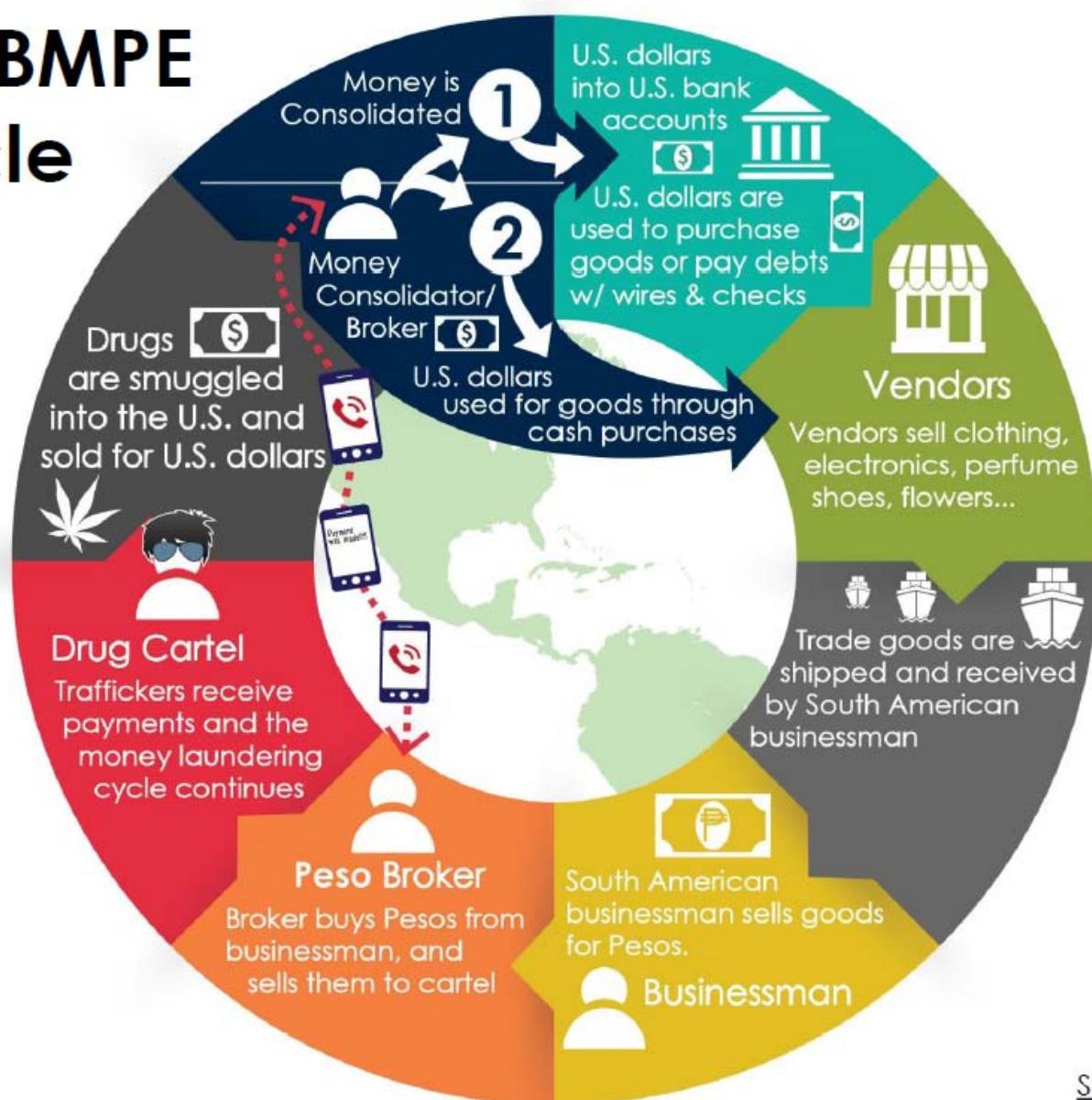
Vendors and Import/ Export



Source: FinCEN Graphics



TBML - BMPE Cycle



Source: FinCEN Graphics



Case Study 1

- CDN agri-food broker receives \$100s of millions in wires from ML jurisdictions to pay for goods shipped to mostly unrelated 3rd party companies around the world.
- Some wires from Mexican MLO who have also sent wires to seemingly unrelated Canadian business (different province, different goods)
- Others from a KHANANI MLO front



Case Study 2

Scheme 1:

- Tens of millions in US-derived narco proceeds wired or transferred to CDN electronics importers
- CDN companies import over-valued electronics goods from AUS/NZ and wire proceeds in payment for goods.
- Analysis of declared values of imports/exports based on CDN, AUS, NZ trade data reveals price discrepancies and phantom shipments.

Scheme 2:

- Same CDN companies export (often straw-purchased) smartphones to UAE, Hong Kong
 - Exploiting semi-legitimate *Daigou* (“buy on behalf of”) networks
- Goods are over- or under-valued to reconcile cash pools as needed
- **Free Trade Zones** used to conceal ultimate recipients of the goods



TBML Red Flags – Trade Indicators (source: FATF)

- Significant discrepancies:
 - between description of the commodity on the bill of lading and the invoice;
 - between the description of the goods on the bill of lading (or invoice) and the actual goods shipped;
 - between the value of the commodity reported on the invoice and the commodity's fair market value;
- The size of the shipment appears inconsistent with the scale of the exporter or importer's regular business activities;
- The type of commodity being shipped is designated as "high risk" for money laundering activities;
- The type of commodity being shipped appears inconsistent with the exporter or importer's regular business activities;
- The shipment does not make economic sense;
- Round or whole dollar values
- The commodity is transshipped through one or more jurisdictions for no apparent economic reason;



TBML Red Flags – Financial Indicators (source: FINCEN)

- International wire transfers received as payment for goods into [CDN] bank accounts or processed through [CDN] correspondent or intermediary accounts, especially where the ordering party (importer of goods) of the wire does not live in the country from which the wire originated.
- Wires originating from BMPE jurisdictions such as Mexico, Guatemala, Argentina, Brazil, Paraguay, Uruguay, Venezuela;
- Payment destinations that include United States, Hong Kong, China, South Korea, Taiwan, Spain, Panama, Curacao, as they relate to duty free trade zones;
- Wires where no apparent business relationship appears to exist between the originator and the beneficiary;
- Vague wire instructions;
- Frequent transactions involving rounding or whole dollar amounts.



Upcoming GOC/CBSA Initiatives

- Budget 2019 Announcements
 - CBSA Centre of Expertise on Trade Fraud and Trade-Based Money Laundering
 - April 2020 launch
 - Government of Canada Anti-Money Laundering “Action, Coordination, Enforcement” (ACE) Team
 - April 2020 launch
- CBSA Renewal



Useful Information

Country	WCAs	Notes
Peru	FTA, MLAT	TBML jurisdiction
Malaysia	Exploratory FTA ASEAN, CPTPP	TBML jurisdiction (1MDB ML scandal)
China	MLAT, CMAA	Major TBML/BMPE jurisdiction, FTZs Chinese BMPE networks are an intelligence gap
Netherlands	MLAT, CMAA	Data analytics focused, significant interest & capacity for combating TBML
Panama	FTA	TBML jurisdiction, FTZs, Secrecy Jurisdiction
Morocco	FTA negotiations	
India	MLAT	TBML jurisdiction
London	MLAT, CMAA	FVEY partner, HMRC NHQ, NCA/JMLIT and MLWG
Jordan	FTA	

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CBSA Knowledge Pool on Trade-Based Money Laundering¹

Background

Laws in place to enforce TBML and other illicit financial crimes

There is no criminal offence under Canadian law called “trade-based money laundering”. Rather, most TBML involves laundering the proceeds of crime using customs trade fraud techniques.

Responsibility for enforcing financial crimes, including fraud, proceeds of crime/money laundering offences in Canada fall largely under the domain of the federal, provincial and municipal law enforcement authorities who enforce the *Criminal Code of Canada (Criminal Code)*. The Royal Canadian Mounted Police (RCMP), Canada’s national police force, is responsible for enforcing federal financial crimes in the *Criminal Code* or those with a national or transnational dimension. Proceeds of Crime offences fall under Part XII.2 of the Code [S. 463.31(1) refers].

The RCMP also has criminal investigative authority for offences under Canada’s *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (PCMLTFA). This legislation establishes specific record keeping and reporting measures designed to detect and deter money laundering and the financing of terrorist activities and to facilitate the investigation or prosecution of money laundering and terrorist financing offences.

The Canada Revenue Agency has criminal investigation authorities to enforce tax evasion, a criminal predicate for money laundering, under the *Income Tax Act*. Fraudulent goods declarations often have bearing on the declared income of the front and shell import/export companies favoured in many TBML schemes. Similarly, income tax offences in the form of import/export tax credit fraud may also be vertically integrated into TBML schemes.

CBSA Mandate for Trade Fraud and TBML

The Canada Border Services Agency does not have the mandate to enforce financial or money laundering-oriented crimes. The Canada Border Services Agency has criminal investigation authorities to enforce trade fraud under the *Customs Act*. Trade fraud is unique in that it is both a criminal predicate for TBML, as well as the primary technique used to perpetrate the activity itself.

All importers and exporters seeking to convey goods to and from Canada have a legislative obligation under the *Customs Act* to provide “true, accurate and complete” reporting of goods imported or exported [further to subsections 7.1, 12 and 95(3)]. Most TBML schemes rely on the intentional misdescription of various elements on customs documentation (including the price, quantity, tariff classification, and physical description of the goods) in order to be successful.

CBSA officers at ports of entry, Intelligence Officers, CBSA foreign Liaison Officers, as well as CBSA Trade Compliance officers inland may develop grounds to suspect money laundering activity in the course of their mandated responsibilities related to the import or export of goods, and may refer these instances to CBSA’s Trade Fraud and TBML Centre of Expertise. The Centre will continue to build on these grounds

¹ This paper provides an overview of key insights CBSA has gained to date on TBML. Note that the TF/TBML Centre of Expertise only became operational as of April 1st and minimal work on TBML was done before that time.

which may yield referrals to CBSA Criminal Investigators for trade fraud offences, as well as the RCMP for suspected TBML.

Overview of Insights Gained To-Date

According to the Financial Action Task Force (FATF), the international body responsible for establishing global anti-money laundering and anti-terrorist financing (AML/ATF) norms and best practices, there are three main methods to disguise illicit proceeds and integrate them into the formal economy:

- o Via the financial system;
- o Through the physical movement of cash and monetary instruments; and finally,
- o Through the physical movement of goods through the trade system.

The risk of money laundering through financial institutions and bulk cash smuggling is well known, and corresponding anti-money laundering and anti-terrorist financing controls are robust. However, abuse of the international trade system has received relatively little attention by most national governments and awareness of trade-based threats is generally limited.

TBML is easily concealed in enormous volumes of global trade, leading some experts to proclaim it as the largest money laundering method in the world, but also the least known and understood. By some estimates, the trade fraud that underlies TBML accounts for over 80% of illicit financial flows from developing nations, and may cost the global economy as much as 1 to 7 percent of annual Gross Domestic Product (GDP) each year.

Scale of TBML in Canada: While the full scope and scale of TBML in Canada remains a gap, a sufficient body of knowledge exists to indicate that Canada is being routinely exploited due to key vulnerabilities, including limited awareness of laundering through the international trade in goods in both the public and private sectors. Canada has not yet developed a methodology to assess the scope and scale of TBML in Canada. However, it is assessed that TBML activity is occurring on a daily basis in Canada, particularly in large metropolitan cities.

How does this threat manifest itself in Canada

Tactics and Schemes

Trade Fraud Remains a Key Driver: Most suspected instances of TBML in Canada occur through the use of commercial trade fraud techniques, primarily involving the mis-description of the price, quantity or quality of goods on documents presented to Customs Services on the importation or exportation of goods from a national jurisdiction. In Canada, most TBML identified to date involves goods exported from Canada, primarily through marine containerized shipping, likely as a result of reduced controls for exports in comparison to imported goods (which have the potential for revenue generation depending on the tariff).

There are a range of TBML methods; however, a typical scheme will involve the use of proceeds of crime by complicit import/export companies to purchase goods destined to or from Canada. Goods will be fraudulently over- or under-valued (weights and goods descriptions can also be manipulated) on customs documents in order to inflate or deflate their value, depending on the direction of the intended flow of proceeds. The import or export of goods creates the necessary pretext for criminal syndicates to wire funds to “pay” for said goods at source or destination. The sale of said goods thus completes the

money laundering cycle, even if no physical goods are ever shipped (i.e. phantom shipments, which have been identified in one significant case). Circumvention of customs requirements is thus the basis for most TBML schemes.

BMPE Variants: In terms of newer TBML methodologies, Canada has identified the abuse of money or value transfer service providers or informal/illicit value transfer systems, as well as continued adaptations of the Black Market Peso Exchange (BMPE), allowing for cash settlement across multiple jurisdictions. BMPE-like schemes account for a significant part of TBML schemes observed in the Americas.

3rd Party Payments: The use of third-party invoice settlement is often used in the context of BMPE-like schemes which are linked to professional money laundering networks. Third-party invoice settlement for goods exported to/from Canada from entities located in high-risk money laundering jurisdictions, generally via open account payments through wires through correspondent banking relationships, remains one of the most commonly observed methods of facilitating TBML.

These transactions are rarely scrutinized by financial institutions and only come to the attention of the CBSA by way of FINTRAC once grounds to suspect TBML have already been established. Moreover, customs authorities are only able to physically examine a small percentage of corresponding goods shipments to validate the wire transfers. Detecting this behaviour would require the mandatory inclusion of some form of customs reference embedded within wire transfer remittance information. Canada, like many countries, does not mandate the inclusion of any form of cross-referencing identifier to link wire transfers with corresponding import or export activity.

Open Account Settlements: In addition, financial institutions have no means to verify whether goods that are either financed or settled through open account have indeed been physically imported/exported as there are no requirements to present confirmation of the submission of customs documents to the appropriate customs authority, the Canada Border Services Agency (CBSA). This information gap increases the risk of goods mis-description or, in the most severe cases, entirely fictitious phantom shipments of goods.

Trade Finance: Trade financing mechanisms may also be exploited to perpetrate TBML. Currently, FINTRAC does not have the legislative authority to collect transaction information linked to trade financing (SWIFT 700 series messages). While Financial Institution anti-money laundering departments have submitted Suspicious Transaction Report (STR) information pertaining to trade finance in some instances, it remains possible that money laundering threats to trade finance remain hidden through lack of access to related information coupled with a low degree of awareness of TBML within capital markets divisions of these institutions. In addition, lawyers who negotiate trade finance contracts are also exempt from Canadian AML reporting requirements due to solicitor-client privilege.

Misrepresentation of the counterparty in a trade transaction: Canada has observed the use of fraudulent customs declarations on both ends of a TBML transaction, likely in order to conceal the true identities of both the originator and the recipients of the goods from the customs administrations on both sides of the transaction.

Typically, a Canadian exporter or freight forwarder will declare a specific foreign entity as the consignee for the goods in question on their export declaration, while the complicit foreign counterparty to the

transaction will provide a different consignee name on the foreign import declaration. In some instances, the Canadian exporter appears to be conspiring with Canadian freight forwarding companies to use the freight forwarder's name and business number information in place of their own, again, likely to conceal the extent of the suspected laundering activity. These behaviours are only detected through access to open trade data, typically provided by for-profit data service providers.

Surrogate Shoppers: Another TBML scheme relates to the abuse of Chinese *daigou* ("buying on behalf of") personal shopping/surrogate shopping networks. This is an unregulated, cash intensive, but legitimate international commerce activity where Canada-based shoppers receive a commission for purchasing high-end luxury goods for customers in China (and possibly the Middle East) often to take advantage of lower Canadian prices. The trade in these goods creates opportunities for TBML when proceeds of crime are used to fund the purchase of inventories of goods for export. Misdescription of these goods creates further opportunity to inflate the value of wire transfers from China used to pay for these goods. This scheme allows launderers and criminal networks to move value between countries without resorting to the international financial system.

Locations

TBML can occur anywhere. However, while specific routings have not been analyzed in detail, imports or exports (and corresponding wire transfers) originating or transiting via the following jurisdictions are often an indicator for TBML:

- United Arab Emirates
- Hong Kong
- China
- Pakistan
- United States:
 - Greater New York area
 - South Florida
 - Southern California
- Latin America, in particular:
 - Mexico
 - Colombia
 - Paraguay / TBA: Ciudad del Este
- Russia related
 - Baltics (banking, now likely less prevalent)
 - Cyprus (professional services)
 - BVI and other offshore jurisdictions (shell company formation)

TBML schemes sometimes include transhipment via global Free Trade Zones (FTZs), particularly in Black Market Peso Exchange schemes. Goods effectively "disappear" into FTZs as they may be re-manifested and further mis-described before being transhipped onwards, which makes it extremely difficult to determine the ultimate destination (and consignees) of goods in these schemes.

Threat Actors

Cartel drug trafficking accounts for much of the proceeds being laundered based on information reviewed/assessed to date. Most of the funds related to these schemes enter Canada from the United States, China, Hong Kong, and the United Arab Emirates (UAE) for goods shipments to a wide variety of third countries, primarily using variations of the Black Market Peso Exchange.

While the CBSA has established linkages between suspected TBML and cartels, the majority of the suspected cases of TBML are believed to be conducted by Professional Money Launderers (PMLs) likely operating at arms-length under contract to the cartels. As the US Treasury continues to expand its Transnational Organized Crime and “Kingpin” sanctions lists, there is a risk that Cartels may come to increasingly favour PMLs operating adjacent to the US financial system in Canada. PMLs are not involved in the generation of the proceeds of crime. Instead, they charge commissions to launder criminal proceeds. Many PMLs hold professional designations or own businesses conducive to laundering, including lawyers, accountants and trade chain professionals (importer/exporters, freight forwarders).

There are also emerging indicators of a series of thriving informal value transfer networks operating across Canada that are facilitating illicit financial flows to and from Canada and a variety of international jurisdictions. It is unclear of the degree to which the money remitters operating these informal networks are aware of the source of the funds they are transmitting through the international movement of goods. Unlike narco-proceeds cases, we have not observed the same degree of financial flow-through activity, suggesting that these funds may be destined to remain within Canadian financial institutions. The mis-description of customs and trade chain documents remains the primary assessed method for facilitating this laundering activity.

Indicators, patterns, or anomalies do you use to highlight a potential TBML threat

The CBSA uses a variety of red flag indicators articulated in the following established TBML typologies to build grounds to suspect TBML:

- [Trade Based Money Laundering](#). Financial Action Task Force. 23 June 2006.
- Asia/Pacific Group on Money Laundering. [APG Typology Report on Trade Based Money Laundering](#). 2012-07-20
- Advisory to Financial Institutions on Filing Suspicious Activity Reports regarding Trade-Based Money Laundering. FinCEN Advisory [#FIN-2010-A001](#).
- FinCEN Advisory [#FIN-2019-A006](#), August 21, 2019.
- FINTRAC – Professional money laundering through trade and money services businesses, July 18, 2018. [Ref # 18/19-SIDEL-025](#)
- [FAFT Report: Professional Money Laundering](#). Financial Action Task Force. July 2018.

Conducting Analysis on TF/TBML Threats

The key to combating TBML lies in the ability to access and layering customs, shipping, tax, financial transaction, intelligence, and entity data. TBML often reveals itself in the layering of these datasets as it allows investigators and analysts to both “follow the goods” as well as “follow the money” and determine the narrative of the laundering activity.

The following traditional methods of conducting financial crime probes/investigations have also proven effective:

- Joint intelligence probes and investigations between the CBSA and the RCMP.
- Analysis of Suspicious Transaction Reports (STRs) and underlying financial transaction information originating from Financial Institutions and Designated Non-Financial Business and Professions to FINTRAC that are shared with the CBSA through a disclosure process. In Canada, financial transaction information can be obtain through FINTRAC without a subpoena.
- Suspicious Activity Reports and other financial intelligence obtained on request from foreign financial intelligence units by FINTRAC, based on Egmont Group Memoranda of Understanding.
- Requests/disclosures from foreign customs counterparts
- Intelligence provided from border, customs, law enforcement agencies and other intelligence services.

Common enablers of TBML

Lack of Awareness: Many TBML threats are perpetrated by networks of professional money launderers, who do not commit money laundering predicate crimes. As a result, enforcement responses tend to favour “traditional” threat actors (e.g. drug traffickers), rather than those cutting across the mandates of multiple agencies, such as with TBML, leading to intelligence blind spots and gaps in coverage.

Limited Examination and Data Analytics Capacity: The CBSA can only physically examine a very small percentage of the huge volumes of good imported and exported from Canada. There is limited ability to leverage the Agency’s customs data holdings through advanced analytic techniques to identify anomalous transactions indicative of TBML behaviour that may warrant examinations to validate the anomalies in question.

Import Focus / Export Reporting Gaps: In the border domain, most CBSA controls focus on protecting Canadian industry and assuring high rates of compliance for duties and taxes paid on imported goods. However, TBML actors frequently exploit lax Canadian export reporting requirements (owing to significant export control weakness, such as limited review of export declarations and very low examination rates) under which no duties or taxes are levied. Investigations and intelligence probes regarding trade fraud (including those with possible TBML dimensions) in the export domain remain low.

Canada and the US also have a unique gap with respect to export data. Both countries do not require their exporters to file export declarations for goods destined to each other, which makes identifying TBML extremely difficult when only import records exist in either country to try to substantiate trade fraud. This also significantly complicates the ability to automate the detection of export anomalies through initiatives such the US Trade Transparency Unit concept.

Limited Reporting by Trade Chains: Trade chain stakeholders do not currently have a mandated reporting role in Canada’s Anti-Money Laundering and Anti-Terrorist Financing (AML/ATF) Regime in detecting TBML in Canada and the CBSA does not have systematic access to shipment information (bills of lading, shipping invoices, etc.). However, data provided from these stakeholders on request, particularly shipping invoices and bills of lading, coupled with their inside knowledge of complex transnational trade chains are crucial in substantiating the suspicion of TBML.

While some trade chain stakeholders have been forthcoming with information in support of anti-TBML efforts, others have insisted upon judicial authorization (production orders) to produce necessary data.

These authorizations require higher legal grounds (equivalent to a search warrant) which complicates and delays investigative activities.

Limited Information Availability: TBML exploits the trade and financial system, but the data required to identify schemes (customs data, bills of lading, shipping invoices, STR/SAR and financial transaction data) are often held by different authorities and private sector entities, and are not systematically available to the competent authorities to cross-check, or to proactively identify suspected TBML through analytics.

Goods identified as part of TBML schemes

The below noted goods are most frequently observed in TBML schemes, however, **any** high-demand, difficult-to-examine good featuring wide pricing margins (or difficult to price) is highly susceptible to TBML.

- Construction materials and plant machinery
- Agriculture products (e.g., fruits, vegetables, grains)
- Auto parts and vehicles
- Clothing (e.g., new, used and recycled textiles)
- Cosmetics and toiletries
- Gold or other precious stones and metals
- Forestry
- Scrap metals
- Electronics (e.g. smart phones, iphones, tablets).

Precious metals and stones do not fall under the definition of currency or monetary instruments (with associated reporting obligations therein) under the PCMLTFA in Canada. From a border perspective these goods are treated no differently from any other good in the Canadian Customs Tariff. This gap increases the likelihood of these high-value commodities as ML vectors.

ENFORCEMENT MANUAL

Part 2

ENFORCEMENT PRIORITIES

Chapter 2

CROSS-BORDER CURRENCY AND MONETARY INSTRUMENTS REPORTING POLICY AND PROCEDURES

POLICY STATEMENT

1. It is the policy of the Canada Border Services Agency (CBSA) to administer and enforce Part 2 of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (PCMLTFA) and its regulations.

DEFINITIONS

2. Refer to Part 11 - Glossary.

AUTHORITIES

The Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA)

3. Part 2 – Provides the obligation to report to a Border Services Officer (BSO) the cross-border movement of currency or monetary instruments of a value equal to or greater than a determined threshold, as well as the authority for the Canada Border Services Agency (CBSA) to administer and enforce Part 2 of the Act.

Cross-Border Currency and Monetary Instruments Reporting Regulations

4. Establishes the threshold amount for currency reporting at CAN \$10,000 or its equivalent after conversion, the general manner of reporting, retention, the prescribed amount of the penalties, and administrative details.

PURPOSE AND SCOPE

5. The purpose of this policy is to provide guidelines to CBSA officers in the event of imports or exports of currency or monetary instruments totalling CAN \$10,000 or greater.
6. This policy applies to all CBSA officers in all modes of transportation.

BACKGROUND

7. Organized crime and money laundering are problems that affect all Canadians. Money laundering is a serious criminal offence entailing the illegal movement of funds, estimated to be billions of dollars, through Canada each year. The impact of organized crime and money laundering goes beyond easily recognized consequences such as violence and economic losses to include less visible social costs.
8. Money laundering is the process by which "dirty money" generated by criminal activities is converted into assets that cannot be easily traced back to their illegal origins. A significant proportion is linked to profits from the illicit drug trade but

proceeds from other crimes, including burglaries and cigarette smuggling, are also involved. Money laundering activities, when carried out through financial institutions, can have an adverse effect on their reputations.

9. In the past several years, the federal government has taken a number of steps against organized crime and terrorist financing activities. New provisions were added in the *Criminal Code* and other federal statutes, such as the *Customs Act*, to target criminal organizations and to seize the proceeds of their illegal activities.
10. The detection of money associated to the proceeds of crime at the border had been particularly problematic, as CBSA officers did not have the authority to question persons on importation or exportation of currency under the *Customs Act*. Illegal money encountered during the normal customs process was only seized under the high standards of the *Criminal Code*.
11. In view of these gaps, the federal government incorporated the mandatory reporting of suspicious transactions and cross-border movements of currency and monetary instruments into the new *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*. Part 2 of the PCMLTFA, from which the Cross-Border Currency and Monetary Instruments Reporting Regulations stem, came into effect January 6, 2003. Part 2 imposes on every person and entity the obligation to report the importation or exportation of currency or monetary instruments of a value equal to or greater than the prescribed threshold of CAN \$10,000. The objective of the Act is to implement specific measures to detect and deter money laundering and terrorist financing activities. It also facilitates the investigation and prosecution of money laundering offences and terrorist financing offences by requiring the reporting of suspicious financial transactions and the cross-border movements of currency and monetary instruments.

POLICY GUIDELINES

Note: Unless otherwise specified, all references to “currency” and “monetary instruments” refer to those equal to or greater than CAN \$10,000, or its equivalent in a foreign currency.

General

12. There is no limitation on the total amount of currency or monetary instruments that may be brought into or taken out of Canada, nor is it illegal to do so.
13. Foreign currency will be considered to have the same value of Canadian currency based on the Bank of Canada official conversion rate of the day. You can find the official conversion rate of the day on the Customs Commercial System (CCS) or the Bank of Canada website.

Note: If no official conversion rate is set out for that currency, use the conversion rate

that the person or entity would use for that currency in the normal course of business at the time of the importation or exportation.

14. The reporting of currency must be made in writing on the appropriate form (E677, E667, and/or E668) and must be signed and submitted by the importer/exporter.

The Cross-Border Currency or Monetary Instruments Report – Individual (E677) form is used to report situations where the importer or exporter physically carries the currency or monetary instruments across the border.

The Cross-Border Currency or Monetary Instruments Report – General (E667) form is used to report all other situations such as when mailing, shipping by courier, or transporting on someone else's behalf. In the case of mail, the exporter who is sending the currency or monetary instruments to Canada is required to affix a Customs Declaration form CN23 on the outside of the mail item and include a completed E667 currency report inside the item.

The Cross-Border Currency or Monetary Instruments Report Made by Person in Charge of Conveyance (E668) form is used to consolidate all currency and monetary instruments transported by the person in charge of a conveyance. In addition, the importer or exporter also has to complete an E667.

15. CBSA officers may question persons regarding the possession of currency or monetary instruments, in accordance with their authorities under the PCMLTFA.
16. Where a completed currency report is submitted and complies with the conditions of this policy, it will be considered to meet the reporting requirements of the PCMLTFA.

Note: The requirements for import and export reporting require the same forms and data.

17. Monetary instruments means the following instruments in bearer form (blank, cash, to the bearer) or in such other form as title to them passes on delivery, namely,
(a) securities, including stocks, bonds, debentures and treasury bills; and
(b) negotiable instruments, including bank drafts, cheques, promissory notes, travellers' cheques and money orders, other than warehouse receipts or bills of lading.

Note: For greater certainty, this definition does not apply to securities or negotiable instruments that bear restrictive endorsements or a stamp for the purposes of clearing or are made payable to a named person and have not been endorsed.

Importing – Individuals

18. Currency that is in the possession of a person must be reported at the point that the person reports to CBSA.

Importations by Mail

19. If a Universal Postal Convention (UPC) declaration form indicates currency or monetary instruments, however, the E667 currency report is either missing or incomplete, the currency will be retained and a retention notice will be issued to the exporter or if unattainable to the importer.
20. The exporter who is sending the currency or monetary instruments to Canada must affix a UPC declaration form to the outside and include a completed E667 currency report inside of the item.
21. Currency that is mailed from a location outside of Canada to another destination outside of Canada but transits through Canada by post are not required to be reported (e.g. St. Pierre et Miquelon).

Importations by Rail

22. The person in charge of a conveyance must report currency at the CBSA office that is nearest the place of importation open for business.
23. If currency is in the possession of a person, it is that person's responsibility to report it to the CBSA at the CBSA office nearest to the place of importation that is open for business.
24. Currency that is in the possession of a crewmember aboard a freight train must be reported immediately at a place specified by an officer. The crewmember will be processed as a traveller.

Commercial Importations by Air

25. Currency, which is transported by an air transportation company, may be reported at the CBSA office of the airport of destination as shown on the air waybill (provided the money is not offloaded before its destination).
26. The person in charge of a conveyance must present the completed currency report.

Reporting in the Air Travellers Mode

27. Primary questioning regarding currency is not required as the completion of a Customs Declaration Card (E311) fulfills the primary reporting requirements.

Importing by Marine Vessel

28. Currency or monetary instruments on board a cargo or cruise ship entering Canada whose final destination is a place other than Canada, do not have to be reported provided that the currency or monetary instruments will not leave the ship.
29. Currency and monetary instruments on board a cargo or cruise ship, carried on behalf of the shipping line entering Canada whose final destination is Canada, must be reported.
30. Declarations must be accompanied by the appropriate cross-border currency and monetary instruments report forms.
31. Where permitted by the CBSA's process, crewmembers and passengers may report currency and monetary instruments using a Customs Declaration Card (E311).
32. A currency reporting form must also be submitted at the time of report.
33. The reporting requirements for passengers, merchants, and crewmembers are an individual responsibility.

Note: Under these circumstances there is no liability on behalf of the cargo or cruise ship.

Reporting at Point of Clearance

34. When a person onboard a commercial carrier arrives in Canada and whose destination is another place in Canada where there is a CBSA office, a currency report may be made at the point of entry.
35. A currency declaration must be made when a person disembarks at a point where they are required to report to the CBSA.

In-transit Passengers

36. Persons aboard a commercial passenger conveyance transiting through Canada are not required to report currency in their possession.
37. Other than to be transferred under the CBSA's control to another commercial conveyance for departure to a place outside of Canada, currency will not be removed from an in-transit area.
38. A currency report must be made if a person disembarks at a point that they are required to report to CBSA.

Preclearance

39. At locations where a Preclearance Area has been designated under the *Preclearance Act*, the CBSA will not exercise any authority to enforce the PCMLTFA once a preclearance officer has cleared individuals for the purpose of entry into the United States.

Telephone Reporting Centres - Importation

40. Telephone Reporting Centers (TRC) may be utilized for currency declarations (i.e. CANPASS Aircraft and Private Boat).
41. Persons reporting to a CBSA officer by phone are permitted to make a currency declaration.

Self-reporting Modes

42. As the PCMLTFA requires that currency be reported to an officer, the various methods of self-reporting to the CBSA (CANPASS Highway, NEXUS, etc.) may not be used to report currency.

Any Other Case of Importation

43. In any other case a person on whose behalf currency is imported will report the currency at the place of importation.

Emergency Importations

44. In an emergency, the person in charge of a conveyance who must unload currency or monetary instruments from the conveyance before being able to make or submit an importation report in accordance with these regulations may submit the importation report by telephone or other expedient means and, as soon as possible after that, must make or submit a report.

Export Reporting - Individuals

45. Currency that is in the possession of a person must be reported at the CBSA office located nearest to the place of exportation that is open for business.

Exports by Mail

46. For currency exportations by mail, the exporter must make the report.
Note: One copy of the report must be placed inside the mailed item. Another copy must be mailed or submitted to the nearest CBSA office prior to or at the time of mailing.

Commercial Exports

47. The exporter of currency, which is exported by a courier or transported on someone's behalf, must make a currency report.
48. The person in charge of a conveyance will present the completed currency report at the place of exportation.

Exporting – Marine vessels

49. Currency and monetary instruments on board a cruise or a cargo ship, as "cash to master" or carried on behalf of the shipping line departing from Canada will have to be reported using the appropriate cross-border currency and monetary instruments report forms at the time of departure.

Note: This does not include ships that are departing from Canada that imported currency or monetary instruments that were not required to report the currency or monetary instruments upon import.

Telephone Reporting Centres - Exportation

50. No provisions exist to utilize the Telephone Reporting Centre to declare the exportation of currency.

Other Exports

51. In any other case, a person on whose behalf currency is being exported must make a currency declaration.
52. Currency reports must be made at the CBSA office at the place of exportation.

Reporting Exceptions - Diplomats

53. In accordance with these policy guidelines, it is the policy of the CBSA to give precedence to the provisions of *the Foreign Missions and International Organizations Act* over the reporting requirements of the PCMLTFA.

Reporting Exceptions - Bank of Canada

54. The PCMLTFA exempts the Bank of Canada from all import/export of currency reporting requirements.

Exemption Applicable to Imported Shares

55. A person or entity is not required to make a report under subsection 12(1) of the

PCMLTFA with respect to stocks, bonds and debentures imported into Canada by courier or as mail if the importer is a financial entity or a securities dealer as defined in subsection 1(2) of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations* or a transfer agent.

Duty to Answer and Comply

56. Upon report of currency, a person making the report is obliged to answer truthfully any questions that an officer asks with respect to the information required to be in the report.
57. Upon request by an officer, a person making a report is required to present the currency, unload any conveyance or part of a conveyance or baggage, and open or unpack any package or container that the officer wishes to examine.

Cancellation of Reports

58. A person who declares currency may up to the time of a full report advise that they no longer wish to proceed with the importation or exportation.
59. A person who does not submit a currency report will be allowed to withdraw their intent to import or export their currency and/or monetary instruments.

Note: This right does not apply to **unreported** currency or monetary instruments.

Verification

60. When a person has made a currency report; an officer may examine the currency for the purposes of verifying the report.

Search of Persons

61. When an officer suspects on reasonable grounds that the PCMLTFA has been violated or that a person is attempting to circumvent the PCMLTFA, the officer may search any person:
 - a) who has arrived in Canada, within a reasonable time after their arrival in Canada
 - b) about to leave Canada, at any time before their departure
 - c) who has had access to an area for use by persons about to leave Canada, and who leaves that area but does not leave Canada, within a reasonable time after they leave the area.

Examination of Conveyances

62. An officer, in order to determine whether there is an amount of currency or monetary instruments equal to or greater than CAN \$10,000 on or about the conveyance and that the currency has not been reported, may stop, board, and examine a conveyance, examine anything in or on it, open or cause to be opened any package or container in or on it, and direct the conveyance to be moved to a CBSA office or other suitable place for an examination.

Note: Conveyances cannot be seized under the PCMLTFA.

Search of Baggage

63. An officer, in order to determine whether there is an amount of currency or monetary instruments equal to or greater than CAN \$10,000 in the baggage and that the currency has not been reported, may examine the baggage and anything in it, open or cause to be opened a package or container in it, and direct that the baggage be moved to a CBSA office or other suitable place for an examination.

Search of Mail

64. Officers may examine and open any mail that weighs more than 30 grams that the officer suspects on reasonable grounds contains currency or monetary instruments equal to or greater than CAN \$10,000. This is to be done in the presence of another officer when and if feasible.
65. Officers may not examine or open any mail that weighs 30 grams or less unless the person to whom it is addressed consents or the person who sent it consents or has completed and attached a label in accordance with article 116 of the *Detailed Regulations of the Universal Postal Convention*.

Report Discrepancies

66. Officers are encouraged to use discretionary powers to allow persons to amend currency reports.

Note: It is recognized that not all contraventions of the PCMLTFA will be intentional. Negligence, carelessness, and lack of knowledge on the part of a person making a report are factors worthy of consideration when deciding whether or not to proceed with a penalty action.

Discretionary Powers

67. It is the policy of the CBSA not to seize or levy a penalty for every error in currency reporting.

Note: It is recognized that during the verification of currency, occasionally errors will be encountered.

68. There is no legal provision relating to errors made regarding amounts being reported and it is not mandatory to apply a penalty.
69. It is the responsibility of the officer to determine if a penalty is reasonable under the circumstances.

Note: It is recognized that not all errors are intentional. Negligence, carelessness, and lack of knowledge on the part of a person making a report are factors worthy of consideration when deciding whether or not to proceed with a penalty.

Benefit of Doubt

70. It is the policy of the CBSA to extend the benefit of the doubt to persons when it appears evident that they were not aware of the CBSA's requirements.

Note: For the purposes of administering the PCMLTFA, officers are encouraged to use the same benefit of the doubt as is utilized when enforcing the *Customs Act*.

Retention Pending Full Report

71. When a person indicates to an officer that they have currency or monetary instruments, the officer may retain the currency or monetary instruments pending completion of the report. The physical retention and safekeeping of the currency or monetary instruments will be done in accordance with the CBSA policies and procedures published in the Comptrollership Manual, Finance Volume.

Note: It is CBSA policy not to perform courtesy holds of currency and monetary instruments.

72. A notice will be given or sent by registered mail without delay.

Note: The regulations require that a notice be sent within 60 days of retention.

Note: providing a copy of the K24 (Non-Monetary Receipt) will fulfill a CBSA officer's "notice" obligation of the PCMLTFA.

73. The currency will no longer be retained, if the importer or exporter satisfies the officer that the reporting requirements have been met or that they have decided not to proceed with the importation or exportation within the seven days following the issuance of the notice.
74. When the requirements are not met within the prescribed period the currency or monetary instruments will be considered abandoned to the Crown.

75. The prescribed seven-day reporting period will be replaced with a 30-day period for the purposes of a courier or mail shipment.

Seizures

76. If a person has not specifically been questioned concerning currency, penalties will not normally be levied unless there is clear evidence of intent to contravene the PCMLTFA.
77. Officers, who believe on reasonable grounds that subsection 12(1) of the PCMLTFA (reporting requirements) has been violated, may seize as forfeit currency or monetary instruments, as per subsection 18(1) of the PCMLTFA.
78. An officer must impose the prescribed penalty when a seizure occurs.
79. The following terms of release will be offered for currency or monetary instruments:

Level 1

- a) \$250, in the case of a person or entity who:
- I. has not concealed the currency or monetary instruments,
 - II. has made a full disclosure of the facts concerning the currency or monetary instruments on their discovery, and
 - III. has no previous seizures under the PCMLTFA.

Level 2

- b) \$2,500, in the case of a person or entity who:
- I. has concealed the currency or monetary instruments, other than by means of using a false compartment in a conveyance, or
 - II. has made a false statement with respect to the currency or monetary instruments, or
 - III. has a previous seizure under the PCMLTFA, other than in respect of any type of concealment or for making false statements with respect to the currency or monetary instruments.

Level 3

- c) \$5,000, in the case of a person or entity who:
- I. has concealed the currency or monetary instruments by using a false compartment in a conveyance, or
 - II. has a previous seizure under the PCMLTFA for any type of concealment or for making a false statement with respect to the currency or monetary instruments seized under the PCMLTFA:

80. No terms of release are offered for currency or monetary instruments suspected to be related to proceeds of crime or terrorist finances:

Level 4

No terms of release: Officers who suspect on reasonable grounds that non-reported currency or monetary instruments are proceeds of crime or terrorist finances, may seize currency with no terms of release.

81. A person who reports the importation or exportation of currency or monetary instruments is required to report the full and accurate value of such currency or monetary instruments. Consequently, where currency or monetary instruments other than that reported are uncovered, both the value equal to the value reported and the value greater than the value reported are subject to seizure.
82. When seizing monetary instruments issued by a financial institution, the seizing officer will suspend the items by immediately notifying the appropriate financial institution by telephone.
83. CBSA officers have the discretion to leave a minimal amount of money (humanitarian reasons) to a person when they cannot pay the penalty imposed for non-reporting of currency and they are left without resources.

Note: The amount of money to be left for a person may be what the officer considers reasonable for the circumstances (e.g. money for food, gas or tolls and distance from residence). The officer should ensure that notes are taken as to the amount of money left in the custody of the traveller and the reasons.

Note: This money is not included in the actual amount seized.

84. When seizing currency and/or monetary instruments, it is imperative that detailed notes be taken. Seizure documentation and narrative report must be completed as soon as possible following any seizure action. Reports should provide a clear articulation of the indicators gathered, supporting the decision to seize.

Note: Reports should be based on the officer's recollection of events with the aid of notes taken during or immediately after the seizure. The style of report writing is optional, however all reports must be logical, objective and professional. Remarks which might be interpreted as slanderous must not be included. Only the facts of the occurrence should be included.

Establishing Proceeds of Crime Criteria Under the PCMLTFA

85. To seize with no terms of release, CBSA officers must have reasonable grounds to suspect that currency or monetary instruments are proceeds of crime or terrorist finances.

Note: Proceeds of crime means any property, benefit or advantage, within or outside

Canada, obtained or derived directly or indirectly as a result of “the commission in Canada of an enterprise crime offence or a designated substance offence, or an act or omission anywhere that, if it had occurred in Canada, would have constituted an enterprise crime offence or a designated substance offence.”

Note: The officer must have reasonable grounds to suspect. A reasonable suspicion is not arbitrary, not random, and not based on irrelevant factors. Mere suspicion without an articulable reason is not enough, but a suspicion based on the experience of an officer together with the facts of a given case will be sufficient.

86. Persons who fail to properly report currency or monetary instruments will not be arrested for violations of the PCMLTFA, regardless of whether or not the seized currency or monetary instruments are suspected proceeds of crime.

Note: Failure to properly report currency or monetary instruments is a civil offence.

87. When currency or monetary instruments are reported and there are reasonable grounds to suspect that they are proceeds of crime or terrorist finances, they cannot be seized under the PCMLTFA. In consultation with the Integrated Proceeds of Crime unit (IPOC), they could be seized under the *Criminal Code*.

Written Notice

88. Giving a person a copy of a seizure receipt will fulfill a CBSA officer’s “written notice” obligation of the PCMLTFA.

Note: The PCMLTFA legislates that an officer who seizes currency must give the person “written notice” of the seizure and of the right to appeal. Providing a copy of the K19C –Seizure Receipt – Cross-Border Currency and Monetary Instruments satisfies this obligation.

Disposition

89. The moment currency is seized it becomes the property of the Crown.

Note: As the person from whom it was seized no longer owns the property, the penalty may not be withdrawn from the currency that has been seized.

90. Seizing officers should attempt to determine when a person would be able to gain the release of the seized currency or monetary instruments.

Note: A person may not have the means to pay for the release of the seized currency or monetary instruments at the time of the seizure.

91. Should a person indicate that they wish to make the seizure payment within a reasonable amount of time, the currency or monetary instruments should be held under the CBSA’s control pending release.

92. The hold-for-payment process is intended to allow persons/entities to gain release of their seized currency or monetary instruments within a reasonable amount of time. Depositing or forwarding it to Public Works and Government Services Canada / Seized Property Management (PWGSC/SPM) may delay its return.

Note: Should the circumstances of the seizure provide any security concerns, the currency or monetary instruments are to be deposited or transferred to PWGSC/SPM immediately.

93. Upon payment of the penalty, currency will be returned to either the importer/exporter or rightful owner.
94. You must ensure that the disposition of the currency is recorded on the Confirmation of the Return of Seized Currency and/or Monetary Instruments (Appendix B), the K19 and/or the Integrated Customs Enforcement System (ICES). Currency and Monetary instruments that are seized and not subsequently released are to be forwarded to PWGSC/SPM in accordance with established procedures for handling public funds received at the port of entry.

Forfeiture

95. All retained currency or monetary instruments will become forfeited, following the completion of the notification period:
- 30 days after the day on which the retention notice was given for importations or exportations by courier or as mail;
 - In any other case, seven days after the day on which the retention notice is given or sent.
96. All forfeited currency and monetary instruments must be deposited or forwarded to PWGSC/SPM.
97. Circumstances of the forfeiture must be forwarded to the Programs Branch at cocr.dmte@cbsa-asfc.gc.ca.

Transfer of Monies

98. Currency that is or becomes forfeited or is seized and the financial penalties associated with the PCMLTFA must be promptly deposited to the credit of the Receiver General and transferred by the Interdepartmental Settlement process to PWGSC or, if the currency is not acceptable for deposit by Canadian financial institutions, forwarded directly to PWGSC/SPM.
99. The safekeeping and physical movement of the currency and monetary instruments shall be done in accordance with CBSA financial policy and procedures published in

the Comptrollership Manual, Finance Volume. The transportation of such monetary items either for deposit to the credit of the Receiver General or directly to PWGSC/SPM shall be in accordance with secure transportation procedures prescribed by the CBSA Corporate Security and Internal Affairs Division or by PWGSC/SPM.

100. Should the approved standards be considered inappropriate due to the circumstances of the seizure, local management may authorize an alternate method for moving the currency.
101. Officer safety will remain the highest concern, and must be taken into consideration when transferring money.

Request for Review of a Seizure Process

102. Within 30 days after the date of the seizure, the Recourse Directorate or a border services officer may:
 - a) cancel the seizure, or cancel or refund the penalty if it is satisfied that there was no contravention; or
 - b) reduce the penalty or refund the excess amount of the penalty collected if there was a contravention but the Recourse Directorate considers that there was an error with respect to the penalty assessed or collected.
103. Within 90 days after the date of the seizure, the person from whom the currency was seized, or the lawful owner, has the right to request a decision from the Minister in the enforcement action.

Note: The PCMLTFA details the provisions for disputes of currency seizures.

104. The Recourse Directorate has been delegated to act on behalf of the Minister in the seizure of currency.
105. The request for review must be sent to the Recourse Directorate.
106. When a dispute is received, Recourse Directorate will act on behalf of the President.

Note: The PCMLTFA requires that the President, without delay, serve written notice (Notice of Reasons for Action) of the circumstances of the seizure to the person who requested a review.

107. The Recourse Directorate will forward to the appellant, by registered mail, a letter outlining the reasons for the seizure.

108. When money laundering or terrorist financing charges are laid in connection with a seizure, the Recourse Directorate may delay rendering a decision to no later than 30 days after the conclusion of the court proceedings.
109. If the Recourse Directorate finds that there has been no contravention, they will notify PWGSC/SPM to refund the penalty that was paid for return of the currency; or to return the monetary instruments; or return an amount equal to the value of the money seized.
110. A person, who has requested an appeal, may within 90 days after being notified of the decision, appeal to the Federal Court.
111. When brought before the Federal Court of Canada, Trial Division, the matter will be turned over to the Department of Justice.
112. The Recourse Directorate will continue to oversee and instruct legal counsel on the proceedings and will have the final say in the disposition of any appeal.

Third Party Claims

113. A third party claiming interest in seized currency may, within 90 days after a seizure, make an application in writing to the court for a third party claim.
114. The court receiving the request must hear the appeal within 30 days of receiving the application.
115. It is the responsibility of the third party making the claim to serve notice of an application and of a hearing to the President, or an officer designated by the President (Recourse Directorate).
116. When civil litigation becomes necessary, third party cases will be turned over to the Justice Department and the Recourse Directorate will oversee and instruct legal counsel on the proceedings and will have the final say in the position taken by the CBSA in contesting a third party application.

Note: The applicant must prove that their interest in the currency was acquired in good faith prior to the contravention; that the applicant is innocent of any complicity resulting in the contravention; and that they exercised reasonable care to ensure that the currency would be reported.

117. On final forfeiture of currency and in accordance with the court order, the Recourse Directorate on behalf of the President will instruct the Minister of Public Works and Government Services to return to the applicant any seized currency or monetary instruments or an amount calculated on the basis of their interest as declared in the

court order.

118. Either the CBSA or the third party making the application may appeal an order made by the court.

Disclosure by the CBSA

119. Information obtained under the PCMLTFA is not CBSA information and has to be used and disclosed only as provided for under the PCMLTFA.
120. The exception to the disclosure of information is the forwarding of reports presented by individuals and entities to the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC).
121. Officers may disclose information to FINTRAC if they have reasonable grounds to suspect that the information would be of assistance to FINTRAC in the detection, prevention, or deterrence of money laundering or terrorist financing.
122. Information obtained under the PCMLTFA may be used internally when it is relevant to the administration and enforcement of that Act, the *Customs Act* or in determining whether a person is a person described in sections 34 to 42 of the *Immigration and Refugee Protection Act* or is relevant to an offence under any of sections 117 to 119, 126 and 127 of that Act.
123. Information gathered as a result of the administration or enforcement of the PCMLTFA may be disclosed, to the appropriate police force, if an officer has reasonable grounds to suspect that the information would be relevant to investigating or prosecuting a money laundering or terrorist financing offence.
124. If an officer decides to disclose information gathered under the PCMLTFA, the Act requires that the officer record in writing the reasons for the decision. It is the policy of the CBSA that such disclosures of information be conducted by the CBSA Integrated Proceeds of Crime (IPOC) members or by a person acting on their behalf (Intelligence staff).

Disclosure by FINTRAC

125. The PCMLTFA permits the disclosure of information to the CBSA where FINTRAC determines that information is relevant to an offence related to the importation of goods, which are prohibited, controlled or regulated under the *Customs Act* or is relevant in determining whether a person is a person described in sections 34 to 42 of the *Immigration and Refugee Protection Act* or is relevant to an offence under any of sections 117 to 119, 126 and 127 of that Act and money laundering or the financing of terrorist activities

Disclosure during Court proceedings

126. It is the policy of the Agency that the procedures detailed in the Customs Enforcement Manual, Part 9, Chapter 4, will be followed when a BSO receives a subpoena to testify regarding the PCMLTFA. A person served with a subpoena is required to comply with the order as it pertains to legal proceedings that relate to the administration or enforcement of the PCMLTFA.

Disclosure to the Department of Citizenship and Immigration

127. The PCMLTFA allows the CBSA to disclose information obtained during the enforcement or administration of the PCMLTFA to Citizenship and Immigration Canada (CIC) when it would be relevant in determining whether a person is a person described in sections 34 to 42 of the *Immigration and Refugee Protection Act*.

Note: FINTRAC may disclose information directly to CIC if they believe that the information is relevant to promoting the objectives of the *Immigration and Refugee Protection Act* (IRPA).

Counterfeit Currency/Monetary Instruments

128. Counterfeit currency and monetary instruments are not considered legal tender and are therefore outside of the realm of the PCMLTFA.

ROLES AND RESPONSIBILITIES CBSA**Officers**

129. CBSA officers are responsible for:

- a) facilitating the reporting of currency and monetary instruments equal to or greater than CAN \$10,000 under the PCMLTFA;
- b) seizing non-reported currency and monetary instruments equal to or greater than CAN \$10,000 under the PCMLTFA, when appropriate;
- c) adhering to the personal search policy and procedures;
- d) exercising diligence, due care and comply with the relevant financial control policies, guidelines and procedures; and
- e) updating the appropriate checklist.

CBSA Managers and Superintendents

130. CBSA managers and superintendents are responsible for:

- a) ensuring compliance with this policy and procedures;
- b) providing the necessary assistance and support to CBSA officers;
- c) ensuring breaches of this policy or procedures are dealt with accordingly;
- d) evaluating the reasonable grounds to suspect that currency or monetary instruments are proceeds of crime as presented by a CBSA officer;
- e) ensuring that the policies and procedures related to personal searches are adhered to by CBSA officer; and
- f) ensuring that the appropriate checklist has been completed.

Regional Intelligence Officers

131. Regional Intelligence Officers within Integrated Proceeds of Crime Units (IPOC), or person acting on their behalf, are responsible for facilitating the exchange of timely information or intelligence concerning individuals and organizations suspected of involvement in money laundering or terrorist financing activities.

Programs

132. The Programs Branch is responsible for:

- a) ensuring that all reports are forwarded to FINTRAC;
- b) notifying FINTRAC and PWGSC/SPM of all currency seizures;
- c) overseeing the administration of the regulations and the cross-border currency reporting program;
- d) consulting with regional or headquarters officials and providing advice and guidance, as required; and
- e) Approving the acquiring of tools used in the administration of the cross-border currency reporting program.

PROCEDURES**Reporting**

133. When referring a person for examination, ask them if they are in possession of currency or monetary instruments equal to or greater than a value of CAN \$10,000, after conversion.
134. When a person declares that they are in possession of currency or monetary instruments equal to or greater than a value of CAN \$10,000, ask additional primary questions when required.

Note: Persons will be offered the opportunity to make a full and complete declaration.

Common Elements to All Modes

Note: For all modes of importation and exportation, common elements exist and they are as follows.

135. Review the documentation (E677, E667 and/or E668) to ensure that all fields are completed to guarantee that all necessary information is provided
136. Ensure that reports are completed in a legible manner in one of the two official languages to allow accuracy of data capture
137. Ensure that E668 reports always accompany E667 reports. They must be sorted and attached together.
138. Eliminate the use of non-prescribed forms such as foreign declaration forms or commercial processing forms and replace them with the prescribed reports (E677, E667 and E668)
139. If all fields are completed, initial, date stamp, and retain the currency report (E677 or E667 and/or E668) for processing. All reports should be stamped at the time of importation or exportation to demonstrate that the legislative requirement to report to an officer has been met and to ensure the location where the report was submitted is clearly identified.
140. Do not provide the person/cARRIER a receipt.

Note: Acceptance of the reports fulfills the reporting requirements of the individual/courier/transporter. No further documentation will be required.

141. Release the person/courier/transporter if you do not feel that a secondary examination or verification is required.

Reporting Procedures in the Highway Travellers Mode

142. Ask persons entering Canada specifically whether they have in their possession, or in their vehicle, currency or monetary instruments that are equal to or greater than a CAN \$10,000.
143. If a person declares that they have currency or monetary instruments greater than CAN \$10,000, advise them that they are required to submit a currency report.

Note: Refer to the Appendices for a sample of the forms.

144. If a person is in possession of a completed currency report, accept the report at primary.
145. If a person is not in possession of a completed currency report or if a secondary examination/verification is required, refer them to secondary.
146. When making a secondary referral:
 - a) indicate the currency declaration on the E67; and
 - b) indicate the amount of currency and country of origin in the E67 comments field (i.e. \$12,000 USD).

Note: The E67 Secondary Referral card has been modified to include a currency field

Reporting in the Highway Commercial Mode

147. The importer/exporter of currency is required to report currency brought in or out of Canada by courier or transporter.

Note: At the primary inspection line a person in charge of a conveyance may present a completed currency report form or make a verbal declaration indicating that they are in possession of currency or monetary instruments.

148. Refer couriers and transporters making verbal declarations for documentation.

Reporting in the Air Travellers Mode

149. When an E311 or primary questioning indicates a currency declaration, ask the person if they have a completed currency report.

150. If a person presents a completed currency report, accept the report at primary.
151. If a person is not in possession of a completed currency report, or if an examination/verification is required, refer them to secondary.
152. Mark the E311 to indicate that a currency report is required, indicate the amount of currency and country of origin.

Reporting in the Marine Mode

153. The Ship Master will indicate on the Ships Stores Declaration (E1) if they are in possession or control of currency or monetary instruments totalling CAN \$10,000 or more.
154. If the Ship Master declares an amount of CAN \$10,000 or more, the E1 must be submitted with a completed currency report (E667 and E668).
155. Crewmembers with CAN \$10,000 or more in currency or monetary instruments must declare it on the Crew's Effects Declaration (Y14) or the Customs Declaration Card (E311) and be accompanied by a completed currency report.
156. If a person declares that they have currency or monetary instruments greater than CAN \$10,000, advise them that they are required to submit a currency report.

Note: Refer to the Appendices for a sample of the forms.

157. If a person is in possession of a completed currency report, accept the report at primary.
158. If a person is not in possession of a completed currency report or if a secondary examination/verification is required, refer them to secondary.

Mail

159. When processing declared currency, open the package and retrieve the currency report.
160. If the currency report is complete, consider the reporting requirements of the PCMLTFA to be met.
161. If a UPC declaration form indicates currency or monetary instruments, however the report is either missing or incomplete, retain the currency.

162. Issue a retention notice to the exporter. If the exporter's address is not known, notify the importer

Note: Upon receipt of the retention notice, the exporter must report the currency at the CBSA office indicated on the notice. Report to the CBSA office and completion of the currency report forms, will fulfill the reporting requirements of the PCMLTFA.

Telephone Reporting Centres

163. When a currency report is made by telephone, where a Telephone Reporting Centre is available to clear the CBSA, complete the currency report form on the person's behalf.

Note: No signature will be required on the form.

Verification

Note: Where a person has made a currency report; an officer does not require reasonable grounds to examine the currency for the purposes of verifying the report.

164. When it is determined that the currency report is to be verified, when possible, count the currency and monetary instrument in the presence of another officer and the client out of the view of the public.
165. When it is determined that currency is to be retained or seized, count it in the presence of another officer.
166. When possible, as the officer counting the currency, take notes indicating the currency denominations and total values.
167. As the observing officer, initial the notes indicating that you witnessed the handling of the currency.
168. As the observing officer, ensure that you take notes regarding the handling of the currency as you may be considered as part of the chain of custody should legal proceedings result from the detention/seizure.
169. Handle currency, which is to be detained or seized, as if it were undeclared or prohibited goods.

Note: Refer to the Enforcement Manual, Part 9 Chapter 3 for the procedures for the handling of physical evidence. When currency is transferred to another entity as

evidence, follow up with the entity regularly.

170. The safekeeping, handling and control of currency or monetary instruments seized for forensic purposes may be required and conducted by the Police in accordance with Departmental policy and procedures identified in the FAM.

Personal Searches

Note: The personal search process is similar to the *Customs Act*.

171. When conducting a personal search for currency, instead of reading section 98 of the *Customs Act*, read to the person section 15 of the PCMLTFA:

“I have reasonable grounds to suspect that you are carrying non-reported currency or monetary instruments above the prescribed amount on or about your person and I am detaining you for the purposes of a personal search as authorized by section 15 of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*.”

Retention

172. List the currency and monetary instruments on a K24 and give the importer or exporter the written notice identifying that the currency has been retained.
173. When currency sent by courier or mail is being retained, notify the exporter.
174. If the exporter’s address is not known, notify the importer.

Commercial Retention Procedures

175. Detain currency and/or monetary instruments by completing a K24 when you examine a parcel/shipment, which has been declared as currency or monetary instruments, but the appropriate currency report forms are not present or are incomplete.
176. Communicate the retention to the exporter by sending them a copy of the K24.
177. If the address of the exporter is not known, send the receipt to the importer.
178. In either case, ensure a signature is required upon delivery.
179. Place a copy of the K24 with the currency.
180. Complete the physical retention of the currency and/or monetary instruments according to district standards (i.e. safes, vaults).

Postal Retention Procedures

181. When declared currency or monetary instruments are encountered, however the package does not contain a completed currency report:
- a) produce a currency/monetary instruments retention form from the Postal Import Control System (PICS);
 - b) forward the PICS letter to the exporter; and
 - c) if the exporter's address is not known, send the letter to the importer.

Release

182. Release currency and/or monetary instruments when you are in receipt of the appropriate currency report or you are satisfied that a report has been made.
183. Cancel the K24 or PICS letter by referencing the name and date on the currency report(s).
184. Should the importer or exporter advise the CBSA within the prescribed period that they do not wish to proceed with the entry, release the currency or monetary instruments by:
- a) canceling the K24 or PICS letter by referencing the name and date on the currency report(s);
 - b) noting on the K24 that the request for entry or exit has been withdrawn; and
 - c) forwarding any incomplete currency reports to the Database unit of the Programs Branch.

PCMLTFA Seizures (ICES)

Note: The seizure documentation and process for PCMLTFA seizures are similar to *Customs Act* seizures.

Note: All of the *Enforcement Manual* procedures regarding the handling of evidence and the gathering of intelligence are applicable to seizures under the PCMLTFA.

Note: PCMLTFA seizures in the postal and courier stream may only be made against the exporter. There are no reporting requirements on the importer (recipient) of the currency or monetary instruments.

BSOs will:

185. Enter seizure information into ICES by selecting the allegation “Non-Report of Currency or Monetary Instruments” from the appropriate drop box:

Note: The commodity drop box has been updated to include:

- a) Currency or Monetary Instruments (for levels 1-3); and
- b) Suspected Proceeds of Crime (for No Terms of Release).

186. Ensure that all data fields on the K19 are fully completed at the time of seizure

187. Ensure the accuracy of the data being input

188. Ensure any data fields, including the narrative report, that may not be completed at the time of seizure are completed **no later than the fourth shift** after the occurrence

189. Ensure that narrative reports contain the information contained in the guidelines below:

a) **When:** The date and time the contravention occurred

b) **Who:** The names and addresses of the subjects involved. Surnames should be in capital letters, and full names should be used, i.e., John Edward DOE

c) **Where:** In all instances, the form K19 will already identify the Port, however greater detail may be required as to where the enforcement action actually commenced (at primary, in the longroom, at secondary, at a sufferance warehouse, etc.)

d) **What:**

- Information as to whether or not the currency or monetary instruments were reported must be included, as well as the value reported and the actual value discovered subsequent to examination.
- Officers must include a description of the currency or monetary instruments that became the object of the enforcement action.
- Where a declaration was made by the subject, a description of the declared goods should also be included.
- Officers should indicate where declared and undeclared goods were located.
- Monetary instruments must be described in greater details to ensure reviewers can determine with certainty that they were negotiable

e) **How:** The essence of the report will normally consist of the method of operation employed by the importer in committing the violation. The method of concealment,

the use of false documentation, the method of transport, would all be pertinent facts to include.

f) Why:

- In most cases, the motive for the unlawful importation will be the evasion of revenue and although it may be obvious to mention this as the reason for the contravention, mentioning the actual amount of revenue evaded may assist an adjudicator to understand the justification for the seizure and the terms of release that were offered
- In some cases, non-report of currency and monetary instruments may be justified by the traveller's lack of understanding of the reporting requirements. Regardless, it is still important to include the reason for choosing the particular level of contravention in the narrative report as it may assist an adjudicator in understanding the rationalization for the enforcement action

Note: When dealing with Level 4 seizures:

- Officers must indicate whether the RCMP or local police attended
- Officers must provide written details of the indicators observed justifying that they suspect proceeds of crime
- Should the funds be transferred to the responding police agency, officers must document the steps followed and provide the transferring details including a copy of the Exhibit Control Form (K129) via email to the Programs Branch at the following address: cocr.dmte@cbsa-asfc.gc.ca

Superintendents will:

190. Ensure that BSOs are afforded sufficient time/opportunity to complete seizure documentation and narrative reports within the established timeframes;
191. Review all seizures within five working days after seizure reports are completed to ensure that no errors have been made, that narrative reports accurately reflect the occurrences, and that all documentation is included in the seizure package;
192. Ensure that review results are documented in the “Seizure review” facility in ICES
193. If directly involved in an enforcement action, the superintendent will complete a narrative report; this is particularly important in the event of a significant seizure or cases that could potentially result in prosecution.

PCMLTFA Seizures (Manual)

Note: A seizure form (K19C) has been developed to include information regarding the PCMLTFA. The K19C will allow the officer to select the appropriate currency

allegation and commodity. A form K19C-1 Currency Inventory Sheet has also been developed. See Appendix A for examples of both forms.

194. If the K19C is not available, write the following allegation on the seizure documentation (K19S):

*"The said currency or monetary instruments are seized under subsection 18(1) of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* because they were not reported contrary to the provisions of subsection 12(1) of that Act."*

195. Ensure that subsection 12(1) of the PCMLTFA is also written on the K19S:

"Proceeds of Crime (Money Laundering) and Terrorist Financing Act 12(1). Every person or entity referred to in subsection (3) must report to an officer, in accordance with the regulations, the importation or exportation of currency or monetary instruments of a value equal to or greater than the prescribed amount."

196. Write in the commodity as either:

- a) Currency or Monetary Instruments (for levels 1-3); or
- b) Suspected Proceeds of Crime (for No Terms of Release).

197. Complete the form K19C-1, Currency Inventory Sheet.

198. Fax the completed K19C and the K19C-1 to the Information Sharing Section at (613) 952-4145 for input into ICES.

Establishing Suspected Proceeds of Crime Criteria under the PCMLTFA

Note: Appendix D provides guidance to BSOs on indicators frequently observed during the seizure of currency or monetary instruments that are suspected proceeds of crime or funds for the financing of terrorist activities.

199. Bearing in mind the definitions of proceeds of crime and reasonable grounds, officers must seize as forfeit suspected proceeds of crime or terrorist finances.
200. BSOs must have questioned the traveller in regards to the currency or monetary instruments in order to proceed with the forfeit under the *PCMLTFA*.
201. As the seizing officer, take notes of all reasonable grounds.
202. A CPIC check should be conducted for all suspected proceeds of crime seizure.

203. Intelligence support procedures established in each region must be followed to determine whether the seized funds are required by the police for use in criminal proceedings;
204. The seizing officer must follow report writing and transferring procedures specific to Level 4 seizures outlined in paragraph 187.
205. When currency or monetary funds are transferred to the police, local management must ensure that the funds are returned to the CBSA to be disposed of according to the procedures set out in the *PCMLTFA*

Establishing Proceeds of Crime Criteria Under the *Criminal Code*

206. Border Services Officers (BSO's) who come across currency or monetary instruments under the reporting threshold or that have been reported under the *PCMLTFA*, but establish reasonable grounds to **believe** that they have proceeds of crime or terrorist finances, are to contact their IPOC unit or their Regional Intelligence office. The funds cannot be seized under the *PCMLTFA*, but could be seized under sections 83.03, 354, or 462.31 of the *Criminal Code*
207. Seizures under the *Criminal Code* often involve a lengthy investigation. The physical seizure of the currency normally follows only after such an investigation. The IPOC unit or Regional Intelligence office will be able to advise the officer on a case-by-case basis.
208. An arrest for laundering proceeds of crime will only occur under the guidance of the IPOC unit or Regional Intelligence office. Should the circumstance warrant, an arrest would be made under the authority of subsection 495(1) of the *Criminal Code*. Only a designated officer at a designated port of entry may make the arrest.

Note: A designated officer may only detain an individual for a short period until custody can be transferred to the police. For more information, please refer to Part 6, Chapter 1(Arrest and Detention) of the Enforcement Manual

209. Currency or monetary instruments seized under the *Criminal Code* will not be placed on customs seizure documentation (K19). The currency or monetary instruments will be recorded on an E352 – Evidence Seizure Receipt. The BSO will write on the E352 that the currency or monetary instruments are being held as “suspected proceeds of crime”.
210. The BSO will also complete a K129 Evidence Control Form. The BSO will cross out the reference that the goods are seized under the *Customs Act* and write in “suspected proceeds of crime”.
211. When the currency or monetary instruments are transferred to IPOC or the police, the E352 will be cancelled with the K129 number. The E352 may be given to the person

from whom the currency was seized as a receipt.

212. For detailed processes regarding arrest and seizure under the *Criminal Code*, refer to the policy and procedures for *Criminal Code* offences in the Enforcement Manual, Part 6, Chapter 7.
213. All actions involving “laundering proceeds of crime” will be reported to the Programs Branch by sending an email to cocr.dmte@cbsa-asfc.gc.ca

Suspending Monetary Instruments

214. In order to protect the value of the seized monetary instruments, suspend the items by immediately notifying the appropriate financial institution by telephone.
215. For travellers' cheques, provide the financial institution with the following information:
 - a) serial numbers;
 - b) quantity of checks by denomination;
 - c) date and place of purchase;
 - d) name of CBSA contact; and
 - e) inform them that the PCMLTFA has been violated.

Note: Major Companies Issuing Travelers Cheques, with 24-Hour service:

American Express 1-800-525-7641
Bank of America 1-415-241-3491
Citicorp 1-800-645-6556
MasterCard 1-800-223-9920
Thomas Cook Bankers 1-800-223-7373 or 212-921-3677
VISA International 1-800-227-6811

216. Do not release the name of the purchaser and/or the person from whom the monetary instruments were seized to the financial institution.
217. Include the time and name of the person notified at the issuing bank or other financial institution in your notes.
218. For all other monetary instruments, contact Programs Branch for guidance at: cocr.dmte@cbsa-asfc.gc.ca.

Transferring Procedures

219. The Receipt and Deposit of Public Money Regulations requires that the terms of release of currency seizure and the forfeited currency be deposited promptly to a CBSA bank account to the credit of the Receiver General. They will respectively be recorded to revenue code 8702 (level 1, 2, 3) and 8701 (forfeit, level 4) during the K10 process (Customs Revenue Report).

Note: A summary of deposits into General Revenue, for the Cross Border Currency Reporting program, must be provided on a monthly basis to CBSA Finance.

220. If it is not already notated on K-10 form, write the seizure reference number and file with the seizure reports.
221. CBSA Finance and PWGSC/SPM will proceed with an interdepartmental settlement (IS) to transfer the funds.
222. For forfeited currency other than in Canadian or American dollars, make reasonable efforts to convert the amount in Canadian funds.
223. If a commercial bank charges a fee for counting or converting the currency, pay the fee from the seized amount. In reporting the seized currency, report the net amount, and specify the amount of the fee paid to the commercial bank.
224. Send forfeited monetary instruments to PWGSC/SPM by courier.
225. If the instruments are blank in the “pay to” field, make them out to the Receiver General for Canada.
226. If there are various monetary instruments with different information on each one, contact the Programs Branch by sending an email to cocr.dmte@cbsa-asfc.gc.ca for details prior to transferring them to PWGSC/SPM.
227. Seized monetary instruments and non-exchangeable currency that could not be deposited by the CBSA and transferred through the IS process for any reason, are to be sent to PWGSC/SPM at:

Public Works and Government Services Canada
Seized Property Management Directorate
12C1, Place du Portage, Phase III
11 Laurier Street
Gatineau, Québec
K1A 0S5

228. Ensure the courier shipment requires a signature on both ends of delivery.

229. Keep a copy of the courier bill of lading with the seizure records.
230. When a seizure is recorded in ICES, the transfer will be noted in the appropriate disposition field. When the seizure and disposition occur simultaneously, and recorded in ICES, the Currency Coordinator will be considered to have been notified.
231. When a seizure is recorded manually, or when currency/monetary instruments is transferred to PWGSC/SPM or to another entity (Police), the officer will notify the Programs Branch by sending an email to cbcr.dmte@cbsa-asfc.gc.ca referencing:
- a) date of the seizure/retention;
 - b) date of transfer;
 - c) seizure/reference number;
 - d) amount transferred;
 - e) type of currency;
 - f) method of transfer (i.e. courier); and
 - g) name of the responsible officer.
232. Print and file a copy of the electronic message to the Programs Branch with the physical seizure reports at cbcr.dmte@cbsa-asfc.gc.ca.

Amendments to Reports

233. When a report is to be modified:
- a) amend the original currency report with the corrected data;
 - b) ensure the person making the report initials the changes;
 - c) note the circumstances of the discrepancy in the comments field of the currency report; and
 - d) ensure you make personal notes regarding the details of the situation.

Note: Acceptance of the reports fulfills the reporting requirements of the individual/courier/transporter. No further documentation will be required.

Note: CBSA officers have the discretionary power to allow persons or entities to amend their currency reports. Where the situation warrants the officer may commence with seizure action or the officer may choose to modify the currency report.

234. If you do not feel a secondary examination or verification is required, release the individual/courier/transporter.

Currency Report Forms

235. Forms are to be treated as Protected B and must be forwarded in accordance with the Transmittal by Mail of Sensitive Information Checklist.
236. Forward all reports received to the Programs Branch through inter-office mail in a reusable envelope or by first class mail using a single gum-sealed envelope with no security marking where interoffice mail is not available. Note: The data will be captured and forwarded by the CBSA to FINTRAC.

Note: Reports for sums under the legislative requirement of \$10,000 CAD or its equivalent in foreign currency are not to be forwarded.

237. Batch reports weekly and forward them via inter-office mail to:

CBSA/FINTRAC Data Entry
Strategic Planning and Financial Management Unit
Program Performance and Reporting Division
17th Floor Sir Richard Scott Building
191 Laurier Avenue West
Ottawa, ON K1A 0L8

REFERENCES

The Proceeds of Crime (Money Laundering) and Terrorist Financing Act

Cross-Border Currency and Monetary Instruments Reporting Regulations

Customs Act

Immigration and Refugee Protection Act

Criminal Code of Canada

Comptrollership Manual, Finance Volume

Part 2

ENFORCEMENT PRIORITIES

Chapter 2

**CROSS-BORDER CURRENCY AND MONETARY INSTRUMENTS
REPORTING POLICY AND PROCEDURES**

Appendix A

SEIZURE RECEIPT CURRENCY AND MONETARY INSTRUMENTS (K19C)

AND

CURRENCY INVENTORY SHEET (K19C-1)



Canada Border Services Agency Agence des services frontaliers du Canada

CROSS-BORDER CURRENCY REPORTING PROGRAM - CURRENCY INVENTORY SHEET
PROGRAMME DE LA DÉCLARATION DES MOUVEMENTS TRANFRONTALIERS DES ESPÈCES -
FEUILLE D'INVENTAIRE DES ESPÈCES

Seizure Number - Numéro de saisie	Date	Time - Heure	Page
Port - Bureau		Officers - Agents	

Canadian - Canadien			U.S. - Américain		
Bills - Billets	Bill count - Nombre de billets	Total Value - Valeur totale	Bills - Billets	Bill count - Nombre de billets	Total Value - Valeur totale
5	X		1	X	
10	X		2	X	
20	X		5	X	
50	X		10	X	
100	X		20	X	
1000	X		50	X	
Other - Autre	X		100	X	
Other - Autre	X		1000	X	
Change Monnaie			Change Monnaie		
Total			Total		
			Exchange Rate - Taux de change		
			Total CAD		

Other Currency - Autres devises			Other Currency - Autres devises		
Specify - Spécifie			Specify - Spécifie		
Bills - Billets	Bill count - Nombre de billets	Total Value - Valeur totale	Bills - Billets	Bill count - Nombre de billets	Total Value - Valeur totale
	X			X	
	X			X	
	X			X	
	X			X	
	X			X	
Change Monnaie			Change Monnaie		
Total			Total		
Exchange Rate - Taux de change			Exchange Rate - Taux de change		
Total CAD			Total CAD		

Monetary Instrument - Effets					
Type of Instrument - Type d'effet	Currency - Devise	Amount - Nombre	Value - Valeur	Exchange Rate - Taux de change	Total CAD
		X \$			
		X \$			
		X \$			
					Total CAD

Part 2

ENFORCEMENT PRIORITIES

Chapter 2

**CROSS-BORDER CURRENCY AND MONETARY INSTRUMENTS
REPORTING POLICY AND PROCEDURES**

Appendix B

**Confirmation of the Return of Seized Currency and/or Monetary Instruments Upon
Payment of Penalty**

Protected once completed

**Confirmation of the Return of Seized Currency and/or Monetary Instruments
Upon Payment of Penalty**

The following statement is to be filled out and signed by the seizing officer or supervisor and the person or representative of the entity in whose hands the currency/monetary instruments were seized.

I, _____, confirm that my seized currency and/or monetary (Client name)

instruments (____): _____, in the
(Type) (Seizure #)

amount of _____, have been returned in full, upon payment (Seized amount - including currency code)

of penalty in the amount of _____.
(Penalty amount)

Person/authorized representative of entity: _____ Date: _____

CBSA Officer : _____ Badge Number: _____ Date: _____

Upon completion, one copy is to be given to the client/authorized representative and one copy is to be kept on file.

Part 2

ENFORCEMENT PRIORITIES

Chapter 2

**CROSS-BORDER CURRENCY AND MONETARY INSTRUMENTS REPORTING
POLICY AND PROCEDURES**

Appendix C

CURRENCY CHECKLISTS

EN Part 2 Chapter 2 Cross-Border Currency and Monetary Instruments Reporting

APPENDIX C**Cross-Border Currency Reporting (CBCR) Program
Seizure Checklist****For Currency or Monetary Instruments**

When currency or monetary instruments are released on payment of penalty (level 1, 2, or 3), the following checklist is to be completed and included on file:

Copy of the K19 or K19C to be included on file. K19/K19C#:	Yes	No
Superintendent notification as per Enforcement Manual Part 2, Chapter 2, Par. 126(c). Superintendent Name: _____ Badge #: _____	Yes	No
Copy of the Confirmation of the Return of Seized Currency and/or Monetary Instruments Upon Payment of Penalty letter to be completed and signed by the seizing officer or supervisor as well as the subject, and included on file.	Yes	No
Copy of the K21 generated upon payment of penalty is included on file. K21#: _____	Yes	No
When the penalty amount collected is deposited into general revenue (under financial coding number 8702), a copy of the K10 is included on file as per Enforcement Manual Part 2, Chapter 2, Par.203. K10#: _____	Yes	No

Superintendent Signature Badge #

EN Part 2 Chapter 2 Cross-Border Currency and Monetary Instruments Reporting
APPENDIX C**Cross-Border Currency Reporting (CBCR) Program Seizure Checklist
For Suspected Proceeds of Crime**

When currency or monetary instruments are seized as suspected proceeds of crime (level 4), the following checklist is to be completed and included on file:

Copy of the K19 or K19C to be included on file. K19/K19C#: _____	Yes	No
Superintendent notification as per Enforcement Manual Part 2, Chapter 2, Par. 126(c). Superintendent Name: _____ Badge #: _____	Yes	No
Seized currency / monetary instruments counted in the presence of a second officer, as per EN Manual Part 2, Chapter 2, par. 159. Officer Name: _____ Badge #: _____	Yes	No
Notify an RIO, as per EN Manual Part 2, Chapter 2, par. 188. RIO Name: _____ Badge #: _____	Yes	No
If the currency and/or monetary instruments are temporarily transferred to the RCMP or a police force, a copy of the K129 is included on file upon transfer. K129#: _____ Please check the appropriate box when the currency and/or monetary instruments is returned by the RCMP or police force	Release Yes No N/A	Return Yes No N/A

If the seizure contains monetary instruments, the financial institution needs to be contacted in order to place a hold on them and preserve their value, as per EN Manual Part 2, Chapter 2, par. 197. Please check the appropriate box, if you have contacted the financial institution.	Yes	No
If the currency and/or monetary instruments are to be deposited into general revenue (under financial coding number 8701), a copy of the K10 is included on file as per Enforcement Manual Part 2, Chapter 2, Par.203. K10#: _____	Yes	No
If the currency and/or monetary instruments are to be forwarded directly to PWGSC/SPM by the port, the courier bill of lading is included on file, as per EN Manual Part 2, Chapter 2, par. 212. Ref#: _____	Yes	No
Notify the Cross-Border Currency Reporting Program coordinator by email, as per EN Manual Part 2, Chapter 2, par. 214.	Yes	No

Superintendent Signature Badge #

Part 2

ENFORCEMENT PRIORITIES

Chapter 2

**CROSS-BORDER CURRENCY AND MONETARY INSTRUMENTS REPORTING
POLICY AND PROCEDURES**

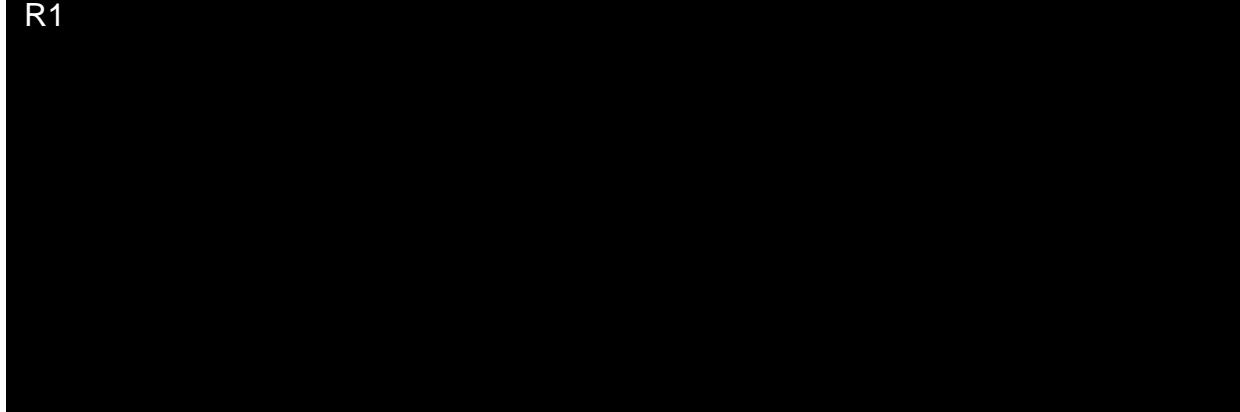
**Appendix D
Suspected Proceeds of Crime Indicator Guidelines**

Actions required:

BSOs are encouraged to apply their knowledge, insight, judgement, and intuition in the independent analysis of each specific case. However, the following frequently observed indicators can be used as a reference tool.

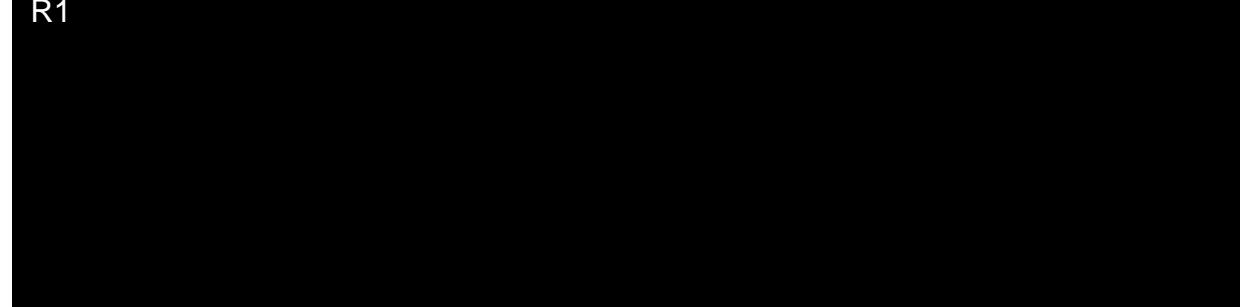
The individual may:

R1



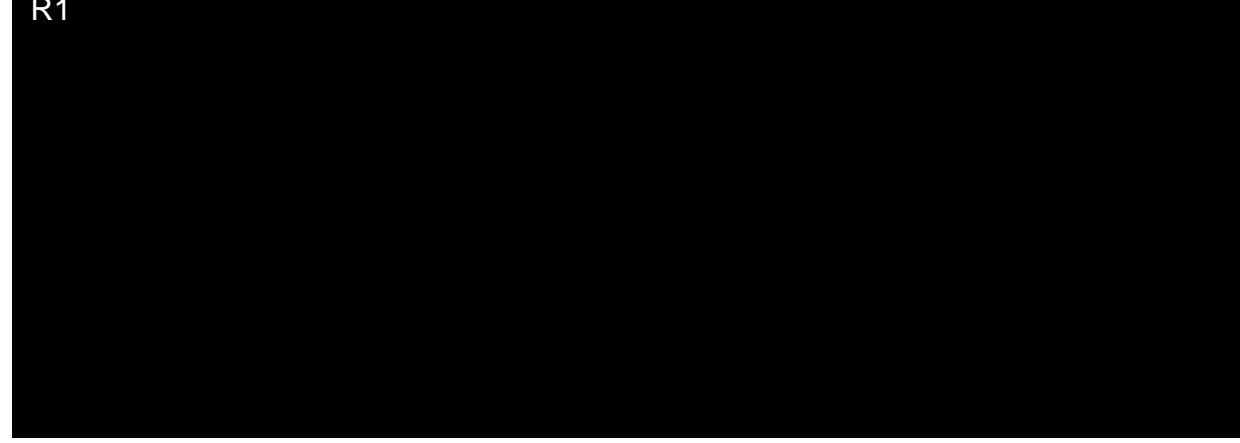
Once the currency is discovered:

R1



Other indicators include, but are not limited to:

R1



Please note that the **multiplicity of indicators** is often more relevant in suspected proceeds of crime currency seizures.

Backgrounder: Trade-Based Money Laundering in Canada
September 2019

Definition: Proceeds of crime fuel transnational criminal activity. Most illicit financial flows believed to cycle to and through Canada originate through the commission of so-called “predicate” criminal offences, particularly narcotics trafficking, but also a range of other offences including human smuggling and trafficking, contraband smuggling and trafficking, etc. These flows need to be layered and integrated into legitimate economies in jurisdictions where they can be accessed and used by criminal actors.

According to the Financial Action Task Force (FATF), the international body responsible for establishing global anti-money laundering and anti-terrorist financing (AML/ATF) norms and best practices, there are three main methods to disguise illicit proceeds and integrate them into the formal economy:

- Via the financial system;
- Through the physical movement of cash and monetary instruments; and finally,
- Through the physical movement of goods through the trade system.

The risk of money laundering through financial institutions and bulk cash smuggling is well known, and corresponding AML/ATF controls are robust. However, abuse of the international trade system has received relatively little attention by most national governments and awareness of trade-based threats is generally limited. The process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimise their illicit origins is thus known as “trade-based money laundering” (TBML).

Threat Environment: Most TBML occurs through the use of commercial trade fraud techniques, primarily through the mis-description of the price, quantity or quality of goods on documents presented to Customs Services on the importation or exportation of goods from a national jurisdiction.

There are a range of TBML methods, however, a typical scheme will involve the use of proceeds of crime by complicit import/export companies to purchase goods destined to or from Canada. Goods will be fraudulently over- or under-valued (weights and goods descriptions can also be manipulated) on customs documents in order to inflate or deflate their value, depending on the direction of the intended flow of proceeds. The import or export of goods creates the necessary pretext for criminal syndicates to wire funds to “pay” for said goods at source or destination. The sale of said goods thus completes the money laundering cycle. Circumvention of customs regulations is thus the basis for most TBML schemes.

TBML is easily concealed in enormous volumes of global trade, leading some experts to proclaim it as the largest money laundering method in the world, but also the least known and understoodⁱ. By some estimates, the trade fraud that underlies TBML accounts for over 80% of illicit financial flows from developing nations, and may cost the global economy as much as 1 to 7 percent of annual Gross Domestic Product (GDP) each yearⁱⁱ.

Canadian Context: CBSA lead development work and partner intelligence reveals that suspected TBML activity is occurring on a daily basis in Canada.

R1

[REDACTED] true extent of TBML is believed to be higher than these figures suggest, owing to the limited resources dedicated to TBML in Canada, leading to significant gaps in available threat knowledge.

R1 [REDACTED] highly liquid, high-demand goods and/or those with wide pricing margins, such as garments, textiles, vehicles and parts, electronics, scrap metals, forestry products and agri-foods appear to be favoured for TBML. R1 [REDACTED] Cartel drug trafficking accounts for much of the proceeds being laundered. Most of the funds related to these schemes enter Canada from the United States, China, Hong Kong, and the United Arab Emirates (UAE) for goods shipments to a wide variety of third countries.

There are also emerging indicators of a series of thriving informal value transfer networks operating across Canada that are facilitating illicit financial flows to and from Canada and a variety of international jurisdictions including China, Hong Kong and the UAE, possibly linked to proceeds of crime, capital flight from China and Iranian sanctions evasion. It is unclear of the degree to which the money remitters operating these informal networks are aware of the source of the funds they are transmitting through the international movement of goods.

Professional Money Launderers (PMLs): A significant amount of laundering continues to be carried out by low level currency smuggling “mules” who are paid or coerced to physically move cash between jurisdictions. However, logistical difficulties plus the risk of theft or interdiction have led many sophisticated criminal networks to adopt less risk-prone and more efficient methods of money laundering, including the increasing use of PMLs in order to reduce their exposure to law enforcementⁱⁱⁱ.

PMLs are not involved in the generation of the proceeds of crime. Instead, they charge commissions to launder criminal proceeds. Many PMLs hold professional designations or own businesses conducive to laundering, including lawyers, accountants and trade chain professionals.

R1

TBML is attractive to these groups because goods purchased with proceeds of crime can be easily transmitted across borders and sold in local currencies conducive to funding the criminal enterprise – a TBML technique known as a [Black Market Peso Exchange](#).

The identities of the international and domestic money controllers/remitters who broker laundering deals between organized crime groups and PMLs across borders remains a key GOC intelligence gap, although indicators of their involvement have been identified in several ongoing CBSA files.

Risk Environment: The risk of TBML in Canada is very high. While the full scope and scale of TBML in Canada remains a gap, a sufficient body of intelligence exists to indicate that Canada is being routinely exploited for its relatively weak anti-money laundering controls, including limited awareness of laundering through the international trade in goods in both the public and private sectors.

Canada likely remains an attractive distribution link in the international flow of narcotics proceeds back to producers, rather than as a key source or destination for the proceeds themselves through TBML techniques. However, there are emerging indications that the funds tied to foreign capital flight and possible international sanctions evasion may be destined to remain within Canadian financial institutions. The mis-description of customs and trade chain documents remains the primary assessed method for facilitating this laundering activity.

Detriment to Canada:

1. **National Security:** TBML fuels global crime and terrorism, by providing a relatively risk-free mechanism to repatriate narcotics, corruption and terrorist financing proceeds, and to evade international sanctions.
2. **Reputation:** The continued flow of illicit finances to and through Canada via trade could negatively impact and Canada's reputation and further entrench the perception of Canada being "soft" on money laundering activity.
3. **Economic Security:** TBML has the potential to weaken the integrity of Canadian financial institutions. In addition, the customs mis-description techniques underlying TBML have the ability to undermine legitimate economic competition and distort legitimate trade data used by the government to affect macro-economic policy decision.
4. **Revenue:** TBML has the potential to deprive countries of duty and tax revenues that may otherwise be collected on goods that draw rates of duty or those with tariff rate quotas used to sustain supply management programs.

Policy Context:

Money laundering is a growing global strategic risk. Canada received a "failing grade" by the FATF during its last [evaluation of Canada's AML/ATF Regime](#) in 2016 for a number of control gaps leading to a perceived "soft stance" on money laundering, and was placed into an enhanced follow-up process requiring annual progress updates to the FATF regarding these concerns. Key FATF criticisms centered

around lack of transparent beneficial ownership requirements for corporations, lack of participation by the legal profession in AML/ATF Regime suspicious transaction reporting, and, notably, for the limited use of financial intelligence and a low corresponding volume of dedicated proceeds of crime prosecutions.

Moreover, many of these concerns were further entrenched in the [*2018 Parliamentary Review of the Proceeds of Crime \(Money Laundering\) and Terrorist Financing Act*](#), a statutory review occurring every 5 years. The Parliamentary Review specifically identified trade-based money laundering as a top money laundering risk, and identified possible mitigation methods, including the use of U.S.-style Geographic Targeting Orders to

The FATF's posture towards Canada has been echoed by key international partners. For example, the United States Department of State's [*2017 International Narcotics Control Strategy Report*](#) lists Canada as a "major money laundering country", alongside Argentina, Brazil, the Cayman Islands, China, Columbia, Cyprus, the Dominican Republic, Iran, Mexico, and Macau.

These findings have coincided with a dramatic increase in media reporting on so-called "[snow-washing](#)" in Canada, i.e., the ease with which gaps identified by the FATF have been exploited in order to facilitate money laundering in the [real-estate](#) and [casino sectors](#), as well as through the [trade in goods](#).

Policy Initiatives: Successfully combating TBML requires enhanced collaboration, information sharing and new approaches with both domestic and international partners across the law enforcement, tax, and financial intelligence domains. The Government of Canada's response to the recommendations in the *Parliamentary Review of the Proceeds of Crime (Money Laundering) and Terrorist Financing* (2018), led to the creation of over 200 proposals from across the 11 members of the AML/ATF Regime, including six from the CBSA. These proposals were eventually narrowed through interdepartmental consultations to 21 initiatives that were subsequently put forward for funding consideration. Two of these initiatives, which directly pertain to combatting TBML, were the subject of [Budget 2019 funding announcements](#), as follows.

GOC AML Action, Coordination and Enforcement (ACE) Team: Public Safety Canada will implement an anti-money laundering intelligence fusion team commencing in FY2020-21. The team will co-locate dedicated experts from the CBSA, CRA, FINTRAC, Public Prosecution Service, PPSC/Seized Property Management and Forensic Accounting groups, and the RCMP to strengthen inter-agency coordination and cooperation and identify and address significant money laundering and financial crime threats. The focus of the ACE Team will likely centre around TBML, as well as casino and real estate based money laundering.

CBSA Centre of Expertise: The CBSA is planning to significantly enhance its capacity to identify, interdict, and prosecute the complex trade fraud that underlies TBML in partnership with the RCMP/ACE Team. Commencing in April 2020-21, the CBSA will establish a multi-disciplinary team comprised of intelligence analysts, trade specialists, criminal investigators, and additional support positions (auditors, data analysts, forensics specialists) will better

position the Agency to identify and investigate anomalous trade transactions indicative of both fraud and TBML, fill in knowledge gaps on PML entities and modus operandi, and prompt enhanced enforcement action.

Legislative Authorities / Mandates: There is no offence under Canadian law called “trade-based money laundering”. Rather, TBML involves both proceeds of crime offences, a.k.a. “money laundering”, under subsection 462.31(1) of the *Criminal Code* that are perpetrated through trade fraud schemes. In most cases, the trade fraud aspect of TBML involves offences under subsection 160 (1) of the *Customs Act* related to the requirements for “true, accurate and complete” reporting of imports and exports [further to subsections 7.1 and 95(3)].

Under *Criminal Code* proceeds of crime provisions, the Royal Canadian Mounted Police must be able to link money laundering to an underlying designated offence in order to secure successful charges. Establishing this link may be feasible in some instances, for example, when drug trafficking networks launder their own proceeds.

However, the increasing use of Professional Money Laundering networks who are not involved in underlying offences significantly reduces the ability of the RCMP to pursue money laundering cases. Offences under subsection 160(1) of the *Customs Act* are hybrid, thus meeting the definition of “designated offence” under subsection 462.3(1) of the *Criminal Code* and allow for the RCMP to pursue TBML when targets are PMLs, or when other underlying offences are otherwise not immediately apparent.

Link to CRA: TBML schemes may also involve wilful contraventions of the *Income Tax Act*. Fraudulent goods declarations often have bearing on the declared income of the front and shell import/export companies favoured in many TBML schemes. Similarly, income tax offences in the form of export tax credit fraud may also be vertically integrated into TBML schemes. As such, it remains the intention of the Government of Canada to increasingly leverage *Customs Act* and *Income Tax Act* offences for the purposes of combatting TBML, primarily through the pursuit of Joint Force Operations and, over time, through the forthcoming policy initiatives outlined above.

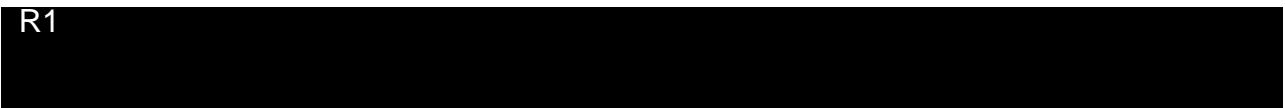
Drafted: CIAS/J. Gibbons, 613-948-3337

Approved: CIAS/ J. Parent, 613-954-2085

ⁱⁱ Trade Based Money Laundering: The Next Frontier in International Money Laundering Enforcement. John A. Cassara. Wiley. 2015

ⁱⁱⁱ Derived from a range of estimates pertaining to either US or broader global estimates for all forms of money laundering (i.e. UNODC, IMF), of which TBML is assessed to be a significant part (see, for example Goods Gone Bad: Addressing Money-Laundering Risk in the Trade Finance System, PWC, January 2015)

R1



JOEL GIBBONS

Trade Fraud and Trade-Based Money Laundering Centre of Expertise
Canada Border Services Agency (CBSA)
10140-191 Laurier Avenue West, Ottawa ON K1A 0L8
Tel: 613-948-3337
E-mail: Joel.Gibbons@cbsa-asfc.gc.ca

RELEVANT PROFESSIONAL EXPERIENCE

- Senior analyst with more than 20 years of experience producing intelligence, investigative, risk, and policy-oriented products on a wide variety of security, intelligence and law enforcement-related topics
 - From 2012-2016, led the CBSA’s working level participation in the Financial Action Task Force mutual evaluation of Canada’s Anti-money Laundering and Anti-Terrorist Financing Regime.
 - Participated in the development of the methodology for, and the subsequent implementation of the inaugural 2015 *National Inherent Risk Assessment of Money Laundering and Terrorist Financing in Canada* developed in support of the FATF mutual evaluation process.
 - CBSA representative for the 2017-18 *Parliamentary Review of the Proceeds of Crime (Money Laundering) and Terrorist Financing Act*. Led the development of six border-related proposals to improve CBSA/Canada’s capacity mitigate border-related money laundering/terrorist financing risks, including the proposal for the CBSA Trade Fraud and Trade-Based Money Laundering (TBML) Centre of Expertise.
 - As a criminal investigations senior analyst, from 2016-2020, led the creation of a new function within the CBSA’s Criminal Investigations Program responsible for developing investigative leads focused on trade-based money laundering.
 - Presented on TBML to a variety of domestic and international audiences in the law enforcement, security intelligence and financial sector fields.
 - Member of the Border Five (Australia, Canada, New Zealand, United Kingdom, United States) Working Group on TBML.
 - Member of the Finance Canada-led *National Inherent Risk Assessment* interdepartmental working group.
 - Member of the Criminal Intelligence Service of Canada-led Anti-Money Laundering Working Group.
 - ACAMS member.

EMPLOYMENT HISTORY

Senior Program Advisor **January 2020-Present**
Trade Fraud and TBML Centre of Expertise, Intelligence & Enforcement Branch, CBSA

- Responsible for leading the production of tactical, operational and strategic intelligence products on complex trade fraud typologies to support the decision-making needs of front-line staff, criminal investigators in Canada and abroad, policy makers and for senior CBSA and other Government of Canada leadership.

- Responsible for collaborating with internal, domestic and international stakeholders to raise awareness on complex trade fraud and TBML, and to build the capacities of the Centre of Expertise in order to advance Canada's ability to mitigate complex trade fraud and TBML threats and risks.

Senior Program Advisor

October 2016-January 2020

Criminal Investigations Division, Operations Branch, CBSA

- Responsible for leading the development of criminal investigations leads focused on trade fraud offences under CBSA program legislation, with emphasis on suspected instances of TBML.

Senior Program Advisor

June 2010 – October 2016

Global Border Management & Data Analytics Directorate, Programs Branch, CBSA

- Responsible for preparing strategic border risk products including the *National Border Risk Assessment*, and developing corresponding risk mitigation plans for senior CBSA decision-makers.
 - Focus on transnational organized crime and drug trafficking in the Western Hemisphere.

Senior Program Advisor

January 2008-June 2010

& Senior Program Officer

International Operations Directorate, Operations Branch, CBSA

- Responsible for providing operational, intelligence, program and administrative support and guidance to CBSA's network of overseas Liaison Officers.
 - Prepared several detailed analytical reports on the CBSA's overseas functions to identify program integrity issues to guide support effective program management.
 - President's Award recipient for contributions to CBSA's response to the 2010 earthquake in Haiti.

Security Investigator

January 2007 – January 2008

Security Bureau, Passport Canada

- Responsible for investigating domestic and international cases of Canadian passport and identity fraud, often with organized crime or national security dimensions in accordance with the *Canadian Passport Order*.
 - Responsible for investigating cases of employee misconduct and malfeasance in Canada and at Canadian missions abroad.
 - Nominated- along with partners at the RCMP, OPP, IRCC, Service Canada- in the category of “Investigative Partnership” at the 2007 International Association of Financial Crime Investigators (IAFCI) Awards for investigative efforts on a complex financial crime scheme involving identity fraud.

Acting Manager of Strategic Planning

September 2005 - January 2007

Security Bureau, Passport Canada

- Responsible for developing and delivering strategic initiatives to further the secure and efficient delivery of Canadian passport services to Canadians abroad, and

conducting passport program reviews at Canadian missions to improve efficiencies and ensure program integrity.

- Recognized by the Chief Executive Officer of Passport Canada for work performed during the 2006 Lebanon evacuation crisis.

Assistant Manager, Data Quality Analysis

May 2003 - September 2005

Security Bureau, Passport Canada

- Responsible for supervising a team of 20 Data Quality Analysts responsible for ensuring the integrity of passport issuance process and database by identifying indicators of possible fraud.
 - Regularly seconded to Global Affairs Canada's Audit and Evaluation team to conduct passport, citizenship, consular and security evaluations and investigations at Canadian missions abroad.

Data Quality Analyst

September 1998 – May 2003

Security Bureau, Passport Canada

- Responsible for identifying, analyzing and reporting on data anomalies and inconsistencies indicative of fraud at passport issuing offices in Canada and at Canadian missions abroad.

Quality Auditor

September 1997-September 1998

Security Bureau, Passport Canada

- Responsible for auditing the passport program at Canadian missions abroad.

RELEVANT PROFESSIONAL DEVELOPMENT

- Financial Intelligence Specialist Designation (FIU Connect/Manchester CF) Ongoing
 - Trade-Based Money Laundering Certificate (ACAMS) 2019
 - CBSA Criminal Investigations Induction Training 2018
 - Dark Web Investigators Course (National Cyber Forensic Training Alliance) 2018
 - Terrorist Financing Investigators Course (RCMP) 2016
 - Visual Communication for Intelligence Analysis (Privy Council Office) 2016
 - Strategic Foresight Seminar 2014
(Conference Board of Canada/University of Houston)
 - Lecture Series on Strategic Analysis (NATO) 2014
 - Analytic Writing Course for Intelligence Analysts (Privy Council Office) 2010
 - Entry Level Course for Intelligence Analysis (Privy Council Office) 2009
 - CBSA Intelligence Program CORE Induction Training 2008
 - Background Investigations (Algonquin College) 2008
 - Impostor Detection (CBSA) 2007
 - Kinesic Interviewing and Interrogation Techniques 2007
(Security Management Institute)
 - Administrative and Civil Investigations (Yvon Gauthier, Inc.) 2007

Sushile Sharma

- > Acting Staff Sergeant and Unit Commander,
- > RCMP
- > Federal Serious and Organized Crime – Financial Integrity

September 2, 2020

Please find attached the CV for Acting Staff Sergeant Sushile Sharma, Royal Canadian Mounted Police

Sincerely,
Sushile Sharma

Sgt. Sushile SHARMA

RCMP "E" Division Headquarters

Federal Serious and Organized Crime

Financial Integrity Section,

Mailstop #809
14200 Green Timbers Way

Surrey, BC V3T 6P3

Office: 778-290-4182
Cell: 604-319-8041
Fax: 778-290-6092

Sushile Sharma

- > Acting Staff Sergeant and Unit Commander,
- > RCMP
- > Federal Serious and Organized Crime – Financial Integrity

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Surrey, BC V3T 6P3

Office: 778-290-4182
Cell: 604-319-8041
Fax: 778-290-6092

EXPERIENCE

2004 - Present

Royal Canadian Mounted Police

Front Line / General Duty Policing (2004-2008)

General Duty / Patrol – Coquitlam, British Columbia

(2008-2015)

RCMP Street Crimes Unit - Drug Section, Marihuana Enforcement Team and Criminal Intelligence Section. – Coquitlam, British Columbia

(2008-2015)

Proceeds of Crime / Asset Forfeiture Investigator – Coquitlam, British Columbia

(2016)

E Division Headquarters Major Crime section. – Surrey, British Columbia

(2016 – Present)

E Division Headquarters Federal and Serious Organized Crime section – Surrey, British Columbia

EDUCATION

1994-1991

Simon Fraser University, Burnaby, British Columbia

Bachelor of Arts Program, Criminology / History

2018-2019

Dalhousie University, Halifax, Nova Scotia

Certificate – Police Leadership and Service Delivery Program elective focus on Evidence Based Policing

October 2019

Harvard University, Boston, Massachusetts

Harvard Business School

Certificate – Global Business

Harvard Business School, graduates are accredited with grounding in the economic, political, and social factors driving global change to help participants assess opportunities, manage risk and create and capture value for their organization.

June 2020

**University of New Haven – Connecticut, West Haven,
Connecticut**

Certificate / Professional Designation – Financial Intelligence
Specialist
Credential ID 520-053

QUALIFICATIONS / SKILLS

Sergeant with the Royal Canadian Mounted Police (RCMP) E-Division within the Federal Serious and Organized Crime Section (FSOC). An investigator / supervisor responsible for preventing, detecting, and investigating transnational crime, particularly drug trafficking and money laundering. Currently works in FSOC's Financial Integrity Unit and oversees a team of 15 investigators as the Unit Commander. Has oversight and responsibility as a lead investigator for high-priority domestic and international investigations that utilize a variety of advanced investigative techniques, including undercover operations, covert surveillance, confidential informants, financial record analysis, and frequent engagement with the international banking community. Is considered a subject matter expert in the areas of drug trafficking, organized crime, covert operations (surveillance) and money laundering.

Court Qualified Drug Expert (BC Supreme Court and BC Provincial Court) and has maintained that designation / qualification since 2014 through extensive direct testimony and cross examination. Areas of qualified expertise: Marihuana, Cocaine, Heroin, MDMA, Fentanyl as well as Possession for the purpose of trafficking, consumption, packaging, distribution, pricing practices, terminology/street language, trends with respect to dial-a-dope operations, including the roles of participants in a dial-a-dope operation, patterns of possession and consumption of popular illicit drugs by users, and the equipment used to consume, patterns of possession and sale of illicit drugs by sellers, and the substances commonly used to dilute them; approximate prices of illicit drugs, the tools and jargon used in the illicit drug trade, and usual supply chains in the distribution of illicit drugs.

Prior to the current posting at FSOC, conducted organized crime, drug trafficking, and money laundering investigations at the RCMP Detachment/Provincial level.

Since 2014, has been an instructor of the RCMP's Organized Crime Course designed to provide current training in areas such as case law, long-term investigations, major case management, covert investigative techniques, investigative methodologies, and high risk/long term operational planning.

PROFESSIONAL ASSOCIATIONS

2020 Professional Risk Managers International Association

REFERENCES

References are available upon request.

CURRICULUM VITAE

BRYANNA GATELEY

Address: RCMP EHQ, 14200 Green Timbers Way, Surrey, BC • Email: Bryanna.Gateley@rcmp-grc.gc.ca

EMPLOYMENT

ROYAL CANADIAN MOUNTED POLICE (RCMP)

Intelligence Analyst Supervisor

Federal Serious & Organized Crime (FSOC), Border Integrity – Surrey, BC (EHQ)

November 2019 to Present

- Oversee the Border Integrity intelligence program within BC, which includes managing and directing a team of Criminal Intelligence and Open Source Analysts who produce analytical deliverables for the various Border Integrity portfolios (land, sea, air, cyber, and synthetic drug production); Manage human resources and administrative functions for the Border Integrity intelligence program, which encompasses staffing, orientation, resource allocation, training, goal-setting, coaching, conducting performance assessments, providing developmental opportunities, and performing quality assurance reviews; Lliaises with management and operational clients on complex/sensitive analytical intelligence matters; Provides subject matter expertise in the analytical field to clients through delivery of information and/or training (including co-presenting on trade-based money laundering (TBML) to the Cullen Commission on Money Laundering in BC).

Intelligence Analyst Supervisor

Real Time Intelligence Centre (RTIC-BC) – Surrey, BC (EHQ)

May 2018 to November 2018

- Supervised 11 Criminal Analysis Assistants (CAAs), which included coordinating and overseeing all of their research projects, training, professional development, and administrative requirements; Established new initiatives in line with the RTIC-BC's mandate and stakeholder interests, including intelligence projects and deliverables to support the Provincial Tactical Enforcement Priorities (PTEP).

Criminal Intelligence Analyst

Federal Serious & Organized Crime (FSOC), Group 5 – Surrey, BC (EHQ)

May 2017 to May 2018

- Provided tactical and operational support (including analysis of FINTRAC disclosures) to high-level investigations targeting transnational drug trafficking organizations; Due to my previous academic research on trade-based money laundering (TBML), I was recognized as a subject matter resource on the topic and was tasked with providing analytical input to support to BC's first TBML investigation; I was also invited to join the RCMP's money laundering working group and BC's inter-agency TBML working group (comprised of Director-level representatives from RCMP, CBSA, CSIS, CRA, PPSC, and FINTRAC), where I delivered presentations and provided insight on the issue; I was also asked to attend and present at FinCEN's first international conference on TBML.

Research and Intelligence Analyst

Federal Policing Criminal Operations (FPCO), Financial Crime – Ottawa, ON (NHQ)

June 2015 to May 2017

- Monitored priority financial crime investigations and drafted briefing notes for the RCMP Deputy and Assistant Commissioners of Federal Policing to advise of significant developments; Identified targets and trends related to terrorist financing in Canada and presented findings to senior management in briefings and analytical products; Selected to be a member of the RCMP Subject Matter Resource Working Group, which was tasked to develop Federal Policing employees into subject matter resources and Expert Witnesses.

District Criminal Intelligence Analyst

Criminal Intelligence Section – Kelowna, BC & Border Integrity Unit – Prince Rupert, BC

June 2009 to Feb 2013

- Provided analytical support to federal organized crime investigations that targeted transnational organized crime figures; Authored threat assessments of top organized crime groups operating in the

interior of BC and drafted district overviews identifying emerging threats, trends, and targets for 3 BC Provincial Threat Assessments; Mined through intelligence to identify targets for intelligence probes / enforcement action and liaised with investigators to address intelligence gaps; Prepared a broad range of tactical and strategic analytical products and presented findings to senior RCMP officers; Liaised with members of the national and international intelligence community to exchange information; Coordinated and chaired several regional intelligence meetings.

Information Management Specialist

Major Crime Section – Kelowna, BC

Feb 2009 to Jun 2009

- Managed and catalogued information of evidentiary value associated to major crime investigations; Prepared disclosure packages for court.

FINANCIAL TRANSACTIONS AND REPORTS ANALYSIS CENTRE OF CANADA (FINTRAC)

Financial Intelligence Analyst

Financial Analysis and Disclosures Section, Western Canada Region – Ottawa, ON

Feb 2013 to Jun 2015

- Analyzed domestic and transnational financial transactions and provided detailed disclosures to law enforcement and domestic and international government agencies in support of high-level and extremely sensitive money laundering and drug investigations; Provided briefings to FINTRAC's Director and Deputy Director on emerging trends in financial crimes and overviews of tactical files; Trained analysts to prepare disclosure packages and conduct associated database searches; As a result of my extensive academic research related to TBML, I was asked to join FINTRAC's TBML working group and contributed to its first publication on the topic.

CITIZENSHIP AND IMMIGRATION CANADA (CIC)

Immigration Program Assistant

Immigration Section of Canadian Embassy – Washington, DC

May 2007 to Jul 2007

- Screened, assessed and processed visa applications for foreign nationals visiting, studying and working in Canada; Trained staff who were new to the section.

GLOBAL AFFAIRS CANADA (Formerly DFATD)

Economic and Trade Policy Internship

Economic and Trade Policy Section of Canadian Embassy - Washington, DC

Jan 2007 to Apr 2007

- Collected first-hand intelligence at congressional hearings, think-tank events and World Bank / IMF conferences related to US relations with emerging economies, trade, and international aid policy; Produced summaries in briefing notes for the Canadian Ambassador and diplomatic community.

EDUCATION

CARLETON UNIVERSITY

Master of Arts (Double major in National Security / Intelligence Studies and International Economic Policy)

Sep 2013 to Apr 2015

UNIVERSITY OF VICTORIA

Bachelor of Arts (Major in Political Science, Minor in Economics)

Sep 2002 to Dec 2007

PRESENTATIONS

- **Trade-Based Money Laundering Presentation to Cullen Commission on Money Laundering in BC** – An inter-agency presentation (RCMP, FINTRAC, and CBSA) delivered to Cullen Commission council (Apr 2020).
- **Trade-Based Money Laundering: A Canadian Perspective** – An inter-agency presentation (RCMP, FINTRAC, and CBSA) to an international audience at FinCEN's first TBML conference (Apr 2018).
- **Trade-Based Money Laundering: An RCMP Perspective** – Presented to the RCMP National Money Laundering Working Group (Oct 2017) and the BC Inter-agency TBML Working Group (Sep 2017 and Feb 2018).
- **Trade-Based Money Laundering 101 for Intelligence Analysts** – Presented to analysts at CFSEU-BC and E Division FSOC (Dec 2017 and Oct 2017).
- **FINTRAC 101** – Presented the FINTRAC 101 training session at the Canadian Police College's (CPC) Tactical Intelligence Analysis Course (TIAC) (Jun 2015).

PUBLICATIONS

- **Trade-Based Money Laundering & Terrorist Financing: A Canadian Perspective** – A peer-reviewed Master's research paper that provided an overview of the Canadian government's efforts to tackle TBML/TF and explored a variety of policy options to better address the issue (Aug 2014).
- **TBML Strategic Overview** – Contributed to the first TBML situational awareness paper for FINTRAC's director that provided a strategic overview of the issue and identified vulnerabilities and legislative gaps (Jan 2015).

SUMMARY OF QUALIFICATIONS

- **Experience in a Variety of Intelligence-Related Functions:** Worked at the divisional and national headquarters level; Experience working in the areas of Financial Crime, Terrorist Financing, and Organized Crime; Provided tactical, strategic and operational intelligence analysis to a variety of RCMP sections; Experience working for RCMP partners (FINTRAC, GAC, CIC).
- **Effective Communication and Interpersonal Skills:** Delivered numerous presentations and briefings to senior decision-makers within the law enforcement and intelligence community; Liaised with investigators to gather information and address intelligence gaps for 3 BC Provincial Threat Assessments; Organized and chaired regional intelligence meetings.
- **Experience Producing Intelligence-Related Products:** Produced a myriad of strategic, tactical and operational reports for senior officers, including threat assessments, joint intelligence assessments, briefing notes, and various analytical products.

~ REFERENCES AVAILABLE UPON REQUEST ~



Audience: *Regional Operations, Regional Intelligence & Enforcement, International Region*
Intelligence and Enforcement Priority: Trade Fraud

Issued: JUNE 2020
Expiry: JUNE 2021

Intelligence Collection, Analysis & Production Division



Trade-Based Money Laundering Overview

ICAP 2020-JUNE-08

HIGHLIGHTS

- Trade-based money laundering (TBML) is the process of concealing and moving illicit money through the legitimate international trade in goods; it is believed to be one of the largest money laundering methods in the world, but one of the least identified and understood.(U)
- The most common form of TBML involves the criminal mis-description of customs declarations, to, for example, artificially raise or lower the value of goods being declared on import or export to or from a country. The trade in goods is attractive to launderers, as it provides a pretext to wire money to accomplices abroad to pay for goods received.(U)
- While the true scale of TBML in Canada remains unknown, the CBSA assesses that at a minimum, hundreds of millions of dollars are likely being laundered through the trade in goods to and through Canada each year. Successful TBML harms Canada's national and economic security, its international reputation, and its revenue collection capabilities.(PA)
- The CBSA has a mandate to detect, deter and disrupt the customs fraud that underlies TBML, but refers suspected instances of TBML to the Royal Canadian Mounted Police for further investigation. (U)

PURPOSE

1. The purpose of this paper is to provide introductory situational awareness on TBML in Canada. The information and judgements in this report are drawn from over a dozen active CBSA leads, a complex and ongoing RCMP money laundering investigation, several dozen Financial Transaction and Reports Analysis Centre of Canada (FINTRAC) disclosures, intelligence from international and domestic law enforcement partners, as well as TBML typology information from Canadian and U.S. financial intelligence units, the Financial Action Task Force, and several non-governmental organizations specializing in financial crime.(U)

PROTECTION • SERVICE • INTEGRITY

Canada

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INTELLIGENCE TACTICAL GUIDE



CONTEXT

2. Proceeds of crime and other illicit financial flows fuel transnational criminal activity. These flows of funds need to be moved into legitimate economies in jurisdictions where they can be safely accessed and used by criminals.(U)
3. According to the Financial Action Task Force (FATF), the international body responsible for establishing global anti-money laundering and anti-terrorist financing (AML/ATF) norms and best practices, there are three main methods to place, disguise and integrate illicit flows into formal economies:
 - Through financial institutions;
 - Through the physical movement of cash and monetary instruments (i.e. bulk cash smuggling); and finally,
 - Through international trade. (U)
4. Money laundering through financial institutions and by bulk cash smuggling is well known, and AML/ATF controls to detect and prevent laundering through these channels have become progressively more robust. Awareness of trade-based threats, on the other hand, remains limited. Most national governments have done little to control laundering by these means, leaving international trade exposed to abuse. The process of disguising illicit financial flows and moving value through the use of trade transactions in an attempt to legitimize their illicit origins is known as TBML.(U)
5. TBML is easily concealed in enormous volumes of global trade, leading a panel of experts to proclaim it as the largest money laundering method in the world, but also the least known and understood¹. No formal estimates exist on the scale of TBML in Canada; however, a sufficient body of intelligence exists to indicate that Canada is being routinely exploited for its relatively weak anti-money laundering controls, including the limited awareness of laundering through the international trade in goods in both the public and private sectors. CBSA assesses that TBML is believed to be emerging as a prevalent technique for professional money laundering networks in Canada, and illicit funds in the low hundreds of millions of dollars are being laundered each year via trade. The true extent of TBML is believed to be higher than these figures suggest.(PA)
6. By one estimate, created using comparisons of international trade datasets and balance-of-payment information, the fraud techniques that underlie most TBML schemes account for over 20% of all trade from developing nations², at a cost of as much as \$8.7 trillion USD between 2008 and 2017³. Of this, the amount of TBML occurring through trade fraud around the world is believed to be substantial.(U)



THREAT ENVIRONMENT

Types of TBML Schemes

7. Most TBML occurs through the use of commercial trade fraud techniques, primarily through the mis-description of documents presented to customs services on the importation or exportation of goods from a national jurisdiction; however, there are a variety of TBML schemes ranging from simple to extremely complex, as follows.(U)
8. **Basic:** The most basic TBML schemes involve transferring goods to finance illicit activities or to procure supplies. In many of these schemes, a strong customs nexus does not exist. This could include the export and sale of vehicles to Africa in exchange for narcotics, or antiquities imports sold to finance the activities of a criminal or terrorist organization. (U)
9. **Moderate:** Circumvention of customs regulations is the basis for most TBML schemes. Criminals funnel proceeds of crime or other illicit financial flows into import/export companies and use these funds to purchase goods destined to or from Canada. Goods will be fraudulently over- or under-valued (weights and goods descriptions can also be manipulated) on customs documents in order to inflate or deflate their value, quantity, or quality. The destination and the identity of the vendor and/or consignee of the goods may also be altered on both customs and shipping documentation to conceal the identities of those involved in the laundering from authorities.(U)
10. The primary purpose of importing and/or exporting goods is to create the pretext for criminals to send Electronic Funds Transfers (EFTs aka “wire transfers” or “wires”) to “pay” for said goods at source or destination, which will depend on the direction of the intended flow of illicit funds, as follows: (U)

To Move \$ OUT	Import Goods	At above value prices
	Export Goods	At below value prices
To Move \$ IN	Import Goods	At below value prices
	Export Goods	At above value prices

11. **Complex:** These schemes build on basic and moderate techniques. Third party goods payments, webs of freight forwarding companies, and international Free Trade Zones (de-regulated areas around the world that are intended to enhance trade) are often introduced to layer trade transactions and create a highly complex illicit international trade chain. These techniques can be complemented with other forms of money laundering (e.g. in the real estate and casino sectors) and related tradecraft to further reduce detection, including the use of shell companies, offshore accounts, nominees, legal trusts, and

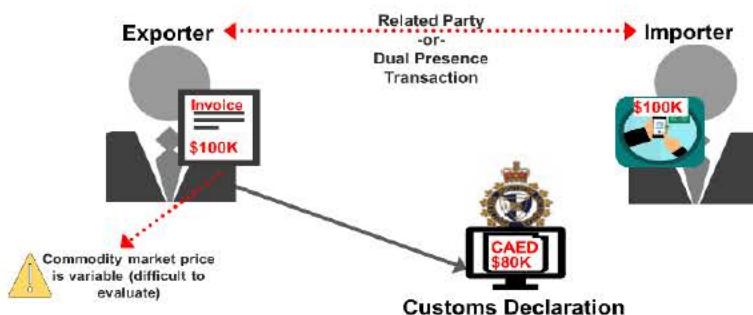


crypto-currencies. The most extreme example of customs-based TBML are “phantom shipments”, where customs declarations are presented for goods that are never shipped.(U)

12. Not all TBML involves the abuse of customs processes. Some schemes rely on the trade in services across borders (e.g. international consulting, research fees, fraudulent construction costs), which, while unsophisticated, is extremely difficult to detect, but could be relevant in the context of determining criminal inadmissibility to Canada under the *Immigration and Refugee Protection Act*. In addition, some “phantom shipment” schemes are purely financial: wire transfers are sent between banks under the pretext of trade payments, but neither shipments nor customs documents are ever declared in support of these transactionsⁱ. (U)

Key Features

13. Criminals engaged in TBML are generally not interested in committing duty and tax evasion, which has been the traditional focus of the CBSA’s border enforcement efforts. Rather, launderers use customs paperwork to justify the wiring of illicit financial flows across borders. The costs involved in converting cash to goods and the payment of duties and taxes, if required, are viewed by launderers as the cost of doing business.(U)
14. All TBML schemes require a complicit buyer and seller. The risk for TBML increases in related party transactions, when the two parties of a trade transaction either have a linked corporate structure, or both ends of the trade transaction are controlled by the same entities.(U)



This scenario presents an instance of “suspected” over-valuation. \$100,000 in goods are being exported from Canada. The goods are invoiced at their presumed true value, however, only \$80,000 worth of goods are declared on export to the CBSA. The scheme allows for an excess of \$20,000 in value to be laundered into Canada. (graphic source: RCMP Financial Crime, Toronto North)

ⁱ These cases would only involve the CBSA mandate insofar as confirming for law enforcement the existence of any supporting import or export activity.



Goods Used

15. While almost any product or commodity can be used to carry out TBML, certain goods are ideal. These include: high-demand, easy to sell goods; goods that are difficult for customs services to examine; and/or goods with variable price ranges (or are difficult to price). Goods exhibiting these characteristics feature repeatedly in TBML schemes in Canada and other countries. These include:

- Smartphones, tablets and electronics (see sidebar)
- Vehicles and vehicle parts
- Agri-foods (e.g. fresh and frozen meats, dairy, seafood, produce)
- Used clothing and textiles
- Lumber and paper products
- Scrap metal and plastic
- Precious metals and stones
- Perfumes and cosmetics

(U)

Snapshot – TBML and Mobile Phones

Mobile phones feature frequently in Canadian and international TBML schemes, and are well-known to both law enforcement and financial institutions. They are emblematic of the ease with which TBML can be conducted, and the difficulty in identifying suspicious shipments.(PA)

The devices are easy to acquire with proceeds of crime through networks of straw buyers (illicit funds are typically used to reimburse buyer's personal credit cards). Logistically, the devices are portable and can be shipped in bulk with ease. At the same time, the wide variety of models, features and price points facilitates mis-description (used models can be sold as new, memory sizes can be altered on declarations, etc). In extreme cases, entire shipments of phones have been known to be recycled from one country to the next, documented as new shipments each time. Demand, particularly for higher-end brand name devices, make phones easy to liquidate in destination markets in order to recover now "clean" funds.(U)

Geographic Concentrations

16. CBSA assesses that TBML activity is occurring on a daily basis in Canada, particularly in the financial and industry hubs of Toronto, Montreal and Vancouver. These locations are where the majority of import/export businesses are domiciled, and where most professional money laundering



activity is concentrated in Canada. Additionally, dozens of Canadian trading companies across the country have the capability and the suspected intent to engage in the placement and layering stages of TBML activities through the trade in goods.(PA)

17. TBML can occur anywhere, but, while specific routings have not been analyzed in detail, imports or exports (and corresponding wire transfers) originating or transiting via the following jurisdictions are often an indicator for TBML:

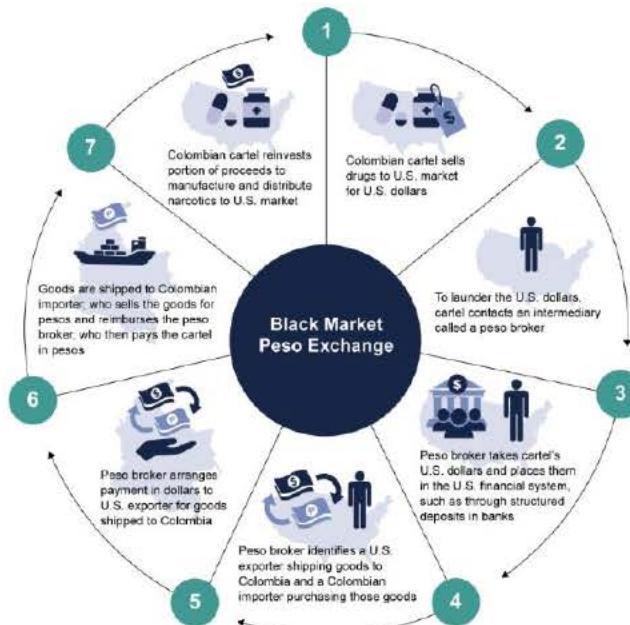
- United Arab Emirates
- Hong Kong
- China
- Pakistan
- United States:
 - Greater New York area
 - South Florida
 - Southern California
- Latin America, in particular:
 - Mexico
 - Colombia
 - Paraguay / Tri-Border Area (Ciudad del Este)

(PA)

TBML Enablers

18. **The Black Market Peso Exchange:** Black Market Peso Exchanges (BMPEs) are a fundamental TBML typology. BMPEs are an “informal value transfer system” created by Colombian traders in the 1970’s seeking methods to evade domestic currency controls in order to access US dollars to pay for imported goods. These methods were quickly adopted by drug trafficking cartels as a method of swapping US drug dollars for Colombian pesos, and the technique remains closely associated with drug trafficking proceeds to date. While there are dozens of variants to the technique, BMPEs help criminal networks solve a key logistical dilemma: how to repatriate illicit finances, usually earned in foreign currency, with minimal risk of exposure, and convert it to local currency where it can be freely used to sustain criminal operations.(U)

19. BMPEs are, effectively, an illegal foreign currency exchange that avoids the large-scale currency transactions which are reportable to Canada’s financial intelligence unit, the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC). A typical BMPE, using the example of laundering US drug proceeds back to Colombia, works as follows (see accompanying graphic).(U)



Source: US Government Accountability Office

20. Not all BMPE schemes use fraudulent customs documentation. In some schemes, the prices, quality, quantities and descriptions of goods can be reported accurately for customs purposes. The money laundering in these instances occurs at the initial, or “placement” stage of the laundering cycle, by using illicit financial flows to purchase goods that are subsequently exported. Proving the complicity of the merchants who accepted illicit funds as payment for exports in these circumstances can be difficult for investigators and prosecutors.(U)
21. **Free Trade Zones (FTZs):** FTZs are de-regulated areas, typically located near ports of entry, that are created by governments to stimulate investment, economic growth, manufacturing and international trade through reduced regulatory controls (e.g. duties and tax collection, examinations) and enforcement. FTZs can also be used to create corporations and other legal entities necessary to access the global financial systems. These features make FTZs attractive for both licit and illicit economic activity, and generally enhance criminal opportunities to engage in money laundering. There are over 3000 FTZs around the world processing billions of dollars' worth of global trade each year. Many are located in major regional financial and trade centres, while others operate in drug trafficking and money laundering corridors (see “Geographic Concentrations” section above).(U)

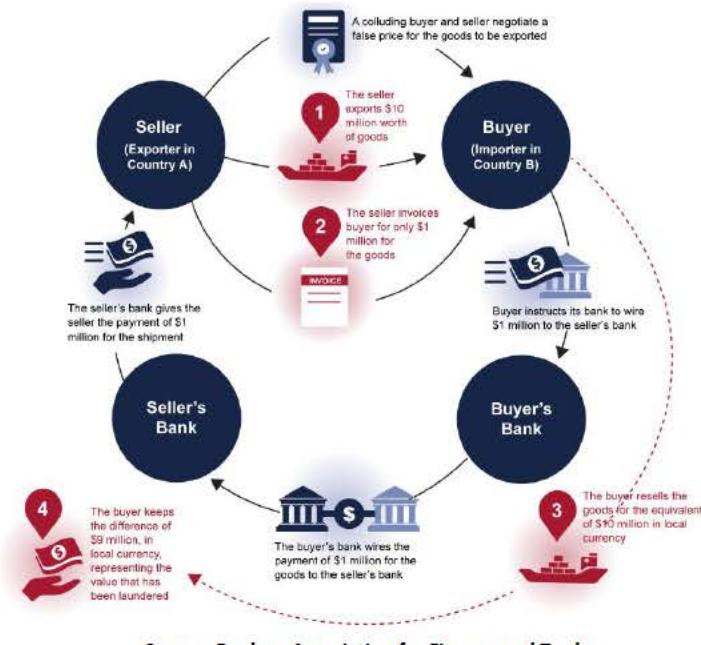


22. TBML schemes identified in Canada are frequently linked to FTZs through goods transshipments, particularly in suspected BMPE schemes. Goods effectively “disappear” into FTZs as they may be re-manifested and further mis-described before being transshipped onwards, which makes it extremely difficult to determine the ultimate destination (and consignees) of goods.(PA)

23. Open-Account Settlements: In open-account transactions, the role of financial institutions are to process the payments for a transaction negotiated between a buyer and seller (typically via a sales invoice) for a fee. Banks generally do no request any documents to support the legitimacy of the transaction, such as an invoice, bill of lading, or customs declaration. In addition, financial institutions have no means to verify whether goods that are either financed or settled through open account have indeed been physically imported/exported, as there are no requirements to present confirmation of the submission of customs documents to the appropriate customs authority, the CBSA.

Conversely, the CBSA has limited ability to reconcile financial transactions with customs records. This information gap increases the risk of goods mis-description or, in the most severe cases, entirely fictitious phantom shipments of goods. (PA)

24. Trade Finance: Information from a complex, ongoing TBML investigation suggests that trade financing mechanisms may be exploited to perpetrate TBML to a greater degree than the Government of Canada (GOC) may be aware. FINTRAC does not have the legislative authority to collect transaction information linked to documentary credit information, which creates a gaps in the CBSA and law enforcement’s ability to identify suspicious financing link to trade transactions. While financial institution anti-money laundering departments have submitted Suspicious Transaction Reports pertaining to trade finance in some instances, it remains possible that money laundering threats to trade finance remain hidden through lack of access to related information coupled with a low degree of awareness of TBML within the trade finance divisions of these institutions. In addition, lawyers who negotiate trade finance contracts are also exempt from Canadian AML reporting requirements due to solicitor-client privilege.(U)



Source: Bankers Association for Finance and Trade



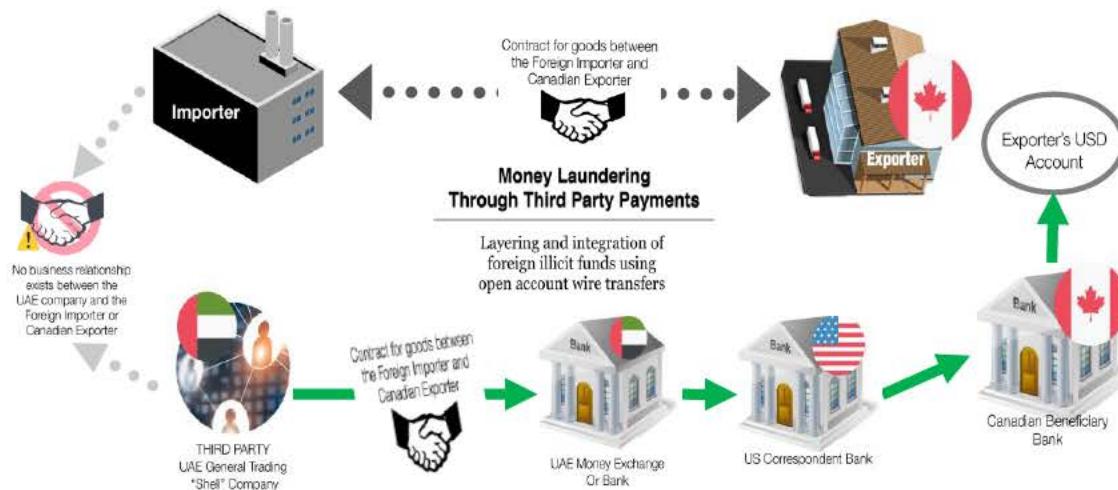
Threat Actors

25. **Cartels:** Cartel drug trafficking accounts for much of the illicit financial flows being laundered, based on partner intelligence and through investigative leads currently under review. Most of the funds related to these schemes enter Canada from the United States, China, Hong Kong, and the United Arab Emirates for goods shipments to a wide variety of third countries, primarily using BMPE variations. Canada likely remains an attractive distribution link in the international flow of cartel narcotics proceeds back to producers, rather than as a key source or destination for the proceeds themselves through TBML techniques. This judgement derives from evidence of significant financial “flow through”ⁱⁱ in bank accounts linked to trade transactions in cases examined thus far.(PA)
26. While the CBSA has established linkages between suspected TBML and Mexican cartels, the majority of the suspected cases of TBML that the CBSA are currently examining are suspected to be conducted by Professional Money Launderers (PMLs) likely operating at arms-length under contract to the cartels. As the US Treasury continues to expand its Transnational Organized Crime and “Kingpin” sanctions lists, there is a risk that Cartels may come to increasingly favour professional money launderers operating adjacent to the US financial system in Canada.(PA)
27. **Professional Money Launderers:** A significant amount of laundering continues to be carried out by low level currency smuggling “mules” who are paid or coerced to physically move cash between jurisdictions. Logistical difficulties plus the risk of theft or interdiction have led many sophisticated criminal networks to adopt less risk-prone and more efficient methods of money laundering, including the increasing use of PML networks in order to reduce their exposure to law enforcement.(PA)
28. PMLs are not involved in the generation of the proceeds of crime. Instead, they charge commissions to launder criminal proceeds, ranging from one to as much as 25 percent in Canada based on the level of laundering difficulty⁴. Many PMLs hold professional designations or own businesses conducive to laundering, including lawyers, accountants and trade chain professionals. CBSA and Government of Canada (GOC) intelligence holdings indicate that the use of TBML techniques via import/export shell and front companies (where beneficial ownership can be difficult to determine) in Canada is prevalent, and appears to be a key money laundering method employed by Mexican and Colombian drug trafficking cartels. R3
29. The identities of the international and domestic money controllers/remitters who broker laundering deals between organized crime groups and PMLs across borders remains a key intelligence gap, although indicators of their involvement have been identified in several CBSA files.(PA)

ⁱⁱ Deposits that are withdrawn or wired onwards from an account within 1-2 days of the initial deposit.



30. Third-parties: The use of third-parties, often located in third countries, who have no apparent connection to a trade transaction to pay goods invoices is one of the most commonly observed methods of facilitating TBML. It is a tactic frequently used in PML-controlled BMPE schemes, and the third party is often linked to an International Controller Network. These global networks of PMLs broker and reconcile laundering deals, and receive and transfer vast sums of illicit money on behalf of various criminal and terrorist enterprises for a fee, notable examples of controller networks with a global footprint and the capability and intent to launder billions of dollars per year include the KHANANI Money Laundering Organization and D-COMPANY, both of which have been sanctioned by the US Treasury and barred from transacting in the US financial system.(PA)



Source: RCMP Financial Crime, Toronto North

31. Payments are typically made by wire transfers between financial institutions with cross-border correspondent banking relationships. These transactions are rarely scrutinized by financial institutions and only come to the attention of the CBSA by way of FINTRAC once the suspicion of TBML has already been established. Moreover, customs authorities are only able to physically examine a small percentage of corresponding goods shipments to validate the wire transfers. Detecting this behaviour would require the mandatory inclusion of some form of customs reference embedded within wire transfer remittance information. Canada, like many countries, does not mandate the inclusion of any form of cross-referencing identifier to link wire transfers with corresponding import or export activity.(PA)

32. Informal Value Transfer System (IVTS) Networks: These trust-based, informal networks exist in parallel to the formal banking sector as serve as a way to transfer funds without money leaving physical borders (sometimes known as *mirror transfers*). IVTS networks receive money from clients seeking to transfer funds to a different geographic location; equivalent values are then paid out at the



opposite end of the network to the intended recipient. IVTS are often used by expatriates to remit money back to family in their countries of origin to avoid high transaction fees and exchange rates, or to transfer funds to hard-to-reach locations. IVTS include “alternative remittance systems” and underground banking that precede western banking by thousands of years (known variously as *hawala*, *hundi*, and *fei chien*). IVTS are secure, anonymous and mostly legal, making them highly attractive to PMLs. TBML is typically used by IVTS networks to balance their ledgers.(U)

33. Financial and other intelligence sources also provides emerging indicators of IVTS networks operating across Canada that are facilitating illicit financial flows to and from Canada and China, Hong Kong and the UAE are, possibly linked to proceeds of crime, capital flight from China and Iranian sanctions evasion (Venezuelan sanctions evasion is also possible, but has not yet been identified in Canada). The degree to which the money remitters operating these informal networks are aware of the source of the funds they are transmitting through the international movement of goods is not known. Unlike narco-proceeds cases, CBSA has not observed the same degree of financial flow-through activity, suggesting that these funds may be destined to remain within Canadian financial institutions. The mis-description of customs and trade chain documents remains the primary assessed method for facilitating this laundering activity.(PA)
34. **Freight Forwarders:** Freight forwarders can be a powerful facilitator of global TBML. The freight forwarding sector occupies a pivotal place in trade chains. They are neither the seller nor the buyer of goods; rather, they expedite goods shipments by helping buyers and sellers navigate often complex customs and shipping routes and processes. Unlike financial institutions, freight forwarders have no AML reporting obligations in situations where they suspect that certain trade transactions may be TBML-related. Taken together, these factors create ideal conditions for maintaining willful blindness to TBML: freight forwarders can use their knowledge of trade logistics and their lack of AML reporting obligations to control and direct TBML schemes, while disguising their role from law enforcement by acting as a facilitator, rather than the driver of suspect trade transactions.(U)
35. For example, in one ongoing TBML investigation, the Canadian and overseas freight forwarders are believed to be manipulating the exporter and consignee information on both Canadian export and overseas import declarations, likely in order to conceal the true identities of both the originator and the recipients of the goods from customs services and law enforcement on both sides of the transaction. In the same case, the Canadian exporter appears to be conspiring with the Canadian freight forwarding companies to use the freight forwarder’s name and business number information in place of their own.(PA)

RED FLAGS

36. The following indicators of TBML activity are based on ‘red flags’ that have been identified by FinCEN⁶ and the Asia/Pacific Group (APG) in their 2012 report *APG Typology Report on Trade Based Money Laundering*⁷. The APG report notes that no one activity by itself is a clear indication of



TBML. Indicators only identify possible signs of illicit activity and need to be evaluated in conjunction with other ‘red flags’ and the normal transaction activity expected.(U)

A. RED FLAGS WITH REGARD TO CORPORATE STRUCTURES

Use of front or shell companies	<p>The transaction involves the use of front or shell companies.</p> <p>A shell company has no real operating activity and is used to hide ML activity, and the identities of individuals involved so as to obscure the money trail. Shell companies enable illicit actors to create a network of legal entities around the world, and distance themselves from the illicit proceeds.</p> <p>By contrast, a front company has real business whose legitimate operations are used as a cover for ML and other criminal activity.</p>
Numerous sole proprietorship businesses / private limited companies	Numerous sole proprietorship businesses / private limited companies set up by seemingly unrelated people (proxies) are found to be controlled by the same group of people. For the setting up of such businesses, false addresses are registered.
Related party transactions	<p>Trade transaction reveals links between representatives of companies exchanging goods (e.g.: same owners or management).</p> <p>Related-party transactions (i.e. transactions between entities that are part of the same corporate or business group), rely on mutual agreements between the parties. Over or under-invoicing of goods and services requires collusion between the exporter and importer.</p> <p>Note: Although there is a higher risk of related party transactions being used for fraud and for TBML, dealings between related parties are not necessarily illegal.</p>

**B. RED FLAGS RELATING TO FINANCIAL & BANKING PRODUCTSⁱⁱⁱ**

Letters of Credit^{iv}	<p>Use of letters of credit to move money between those countries where such trade would not normally occur or is not consistent with the customer's usual business activity.</p>
	<p>Repeatedly amended or frequently extended letters of credit without reasonable justification, or that includes changes in regard to the beneficiary or location of payment without any apparent reason.</p>
Method of payment	<p>The method of payment requested by the client appears inconsistent with the risk characteristics of the transaction. For example, receipt of an advance payment for a shipment from a new seller in a high-risk jurisdiction.</p>
Use of unrelated third-party entities	<p>Transactions that involve payment from third-party entities that have no apparent connection with the transaction (unrelated to the seller or purchaser of goods).</p>
	<p>Transactions that involve front or shell companies or wire instructions/payment from parties which were not identified in the original letter of credit or other documentation.</p>
	<p>Transactions that involve payments for goods through cheques, bank drafts or money orders not drawn on the account of the entity that purchased the items.</p>
Unusual deposits	<p>Unusual deposits, e.g.: use of cash or negotiable instruments (such as traveler's cheques, cashier's cheques and money orders) in round denominations to fund bank accounts and to pay for goods and services.</p>
	<p>The negotiable instruments sequentially numbered or purchased at multiple locations, frequently lacking payee information. Cash payments for high-value orders are also indication of TBML activity.</p>

ⁱⁱⁱ These indicators are helpful when reviewing FINTRAC disclosures.

^{iv} An important payment method that facilitates international trade as a bank guarantees a buyer's payment to a seller. Sometimes referred to as documentary credit.



Sudden onset and sudden cessation of transactions	Sudden onset and equally sudden cessation of payments - typically wire transfers - within a short duration. This could be an indication that the account is temporarily being used to launder illicit proceeds.
Use of multiple accounts without explanation	Inward remittances in multiple accounts and payments made from multiple accounts for trade transaction of same business entity.
Merchanting Trade	The trade finance mechanism should be in place for both export leg, as well as import leg, of transaction. If the trade finance mechanism, for example Letters of Credit, have been provided for only the import leg of the transaction and not for export leg, this indicates the possibility of TBML.

C. RED FLAGS WITH REGARD TO JURISDICTION

Use of high risk shipment or transshipment points	The commodity is shipped to or from a jurisdiction designated as 'high risk' for ML activities, or sensitive / non co-operative jurisdictions.
	The commodity is transshipped through one or more such high-risk or sensitive jurisdictions for no apparent economic reason.
Free Trade Zones / Special Economic Zones	<p>Free Trade Zones (FTZs) are emerging as being especially vulnerable to TBML. Shipments of high value merchandise (such as electronics, auto parts and precious metals and gems) to duty-free trade zones, seen in conjunction with the following red flags, could be an indication of a trade-based money laundering activity:</p> <ol style="list-style-type: none">1) Third-party payments for goods or services made by an intermediary (either an individual or an entity) apparently unrelated to the seller or purchaser of goods.2) Amended letters of credit without reasonable justification.3) Significant discrepancies between the descriptions of the goods on the transport document (e.g.: bill of lading), the invoice, or other documents (e.g.: certificate of origin, packing list). <p>Payment destinations that include Hong Kong, China, South Korea, Taiwan, Spain, Panama, Curacao, as they relate to free-trade zones.</p>



Unusual or circuitous routing	Circuitous route of shipment or circuitous route of financial or trade transaction. Order for the goods is placed by firms or individuals from foreign countries other than the jurisdiction of the stated end-user.
Transactions inconsistent with geographic trade patterns	Transaction involves shipment of goods inconsistent with normal geographic trade patterns of the jurisdiction (e.g.: trade in goods which are not normally exported or imported by a jurisdiction, or which does not make any economic sense). For example, semiconductor manufacturing equipment being shipped to a jurisdiction with no electronics industry.

D. RED FLAGS WITH REGARD TO GOODS

Misrepresentation of description, quality or quantity of goods	Significant discrepancies between the description, quality and quantity of the goods on the documents, such as bills of lading, invoices, and the actual goods shipped. Misrepresentation may also be in relation to or type or grade of goods. For example, a relatively inexpensive good is supplied, but is invoiced as being more expensive, of different quality or even as an entirely different item so that the documentation does not accurately record what is actually supplied (mis-declaration).
Discrepancies between reported value of commodity and fair market value	Significant discrepancies appear between the value of the commodity reported on the invoice and the commodity's fair market value. This is done either in conjunction with mis-declaration of the description / quality / grade of goods or without it. This is also often associated with mis-declaration of the jurisdiction of origin.
Irregularities with consignment size or type	Consignment size or type of commodity being shipped appears inconsistent with the scale or capacity of the importer / exporter or in relation to their regular business activities, or the shipment does not make economic sense (i.e. there is no reasonable explanation for the client's financial investment into the shipment).

**Vulnerable commodity**

All trade transactions are vulnerable for TBML; however, some commodities provide greater opportunity for ML. Goods involved in TBML will usually be those where it is difficult to identify true value, due to the nature of these goods. For example, anomalies in value are less apparent and more difficult to substantiate in commodities that exhibit a wide range in their valuation. The following goods have been identified as vulnerable for TBML:

- electronics
- agricultural products (meats/meat products, dairy)
- garments (e.g. used clothes) and textiles
- vehicles/vehicle parts
- precious metals and stones
- pulp and paper

Note: This is not an exhaustive list.

IMPLICATIONS FOR THE CBSA AND CANADA**Enforcement Mandate**

37. As Canada's trade gatekeeper, the CBSA supports public safety and national security priorities by ensuring that all goods imported or exported comply with border-related program legislation. Traders seeking to convey goods to and from Canada have the obligation under the *Customs Act* to provide "true, accurate and complete" reporting of goods imported or exported^v. Launderers who willfully make false statements to the CBSA by mis-describing customs documentation to evade their reporting obligations may be subject to investigation by the CBSA's Criminal Investigations Division; however, when customs offences appear to be facilitating money laundering, the CBSA is obligated to refer these instances to the RCMP for investigative consideration^{vi}, and *Customs Act* offences may form the basis of subsequent laundering investigations by the RCMP.(U)
38. There is no criminal offence under Canadian law called "trade-based money laundering". Responsibility for enforcing financial crimes, including fraud and proceeds of crime/money laundering offences in Canada fall largely under the domain of the federal, provincial and municipal law enforcement authorities who enforce the Criminal Code of Canada (*Criminal Code*).^{vii} The

^v Further to *Customs Act* subsections 7.1, 12 and 95(3)

^{vi} According to the *CBSA Act*, the Agency has a legislated responsibility to provide cooperation, support, information and advice to other federal departments to assist them in carrying out their mandated responsibilities.

^{vii} *Criminal Code* subsection 463 31(1). Proceeds of crime and money laundering offences fall under Part XII.2 of the Code.



Royal Canadian Mounted Police (RCMP), Canada's national police force, is responsible for enforcing federal financial crimes in the Criminal Code or those with a national or transnational dimension. The RCMP also has criminal investigative authority for offences under Canada's *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (PCMLTFA). This legislation establishes specific record keeping and reporting measures designed to detect and deter money laundering and the financing of terrorist activities and to facilitate the investigation or prosecution of money laundering and terrorist financing offences.(U)

Harms

39. There are four broad categories of consequences for Canada and Canadians when TBML is successful:

- **National Security:** TBML provides criminals and terrorists with a relatively risk-free mechanism to repatriate narcotics, corruption and terrorist financing proceeds, to evade international sanctions, and to finance proliferation activities.
- **Reputation:** TBML has the potential to further entrench the perception of Canada being "soft" on money laundering. For example, the United States has identified Canada as a "major" money laundering "jurisdiction of primary concern" in each iteration of its Department of State *International Narcotics Control Strategy Report* since at least 2009.
- **Economic Security:** Moreover, the trade distortions that TBML creates can undermine legitimate competition and macro-economic decision-making. Finally, TBML damage the reputation of the financial institutions within a country, as well as that of the country itself.
- **Revenue:** When dutiable goods are targeted, TBML deprives countries of revenues that may otherwise be collected.(U)

Trade Fraud and Trade Based Money Laundering Centre of Expertise

40. In recognition of the threat posed by TBML in Canada, and the critical role played by CBSA in addressing the issue, the GoC authorized the creation of the Trade Fraud and Trade Based Money Laundering Centre of Expertise within the Agency. The Centre is operational as of April 2020 and is mandated to enhance the Agency's capacity to identify, interdict, and investigate complex trade fraud, and refer TBML files to the RCMP. Establishing a multi-disciplinary team comprised of intelligence analysts, trade specialists, and criminal investigators will better position the Agency to identify and investigate anomalous trade transactions indicative of TBML, and fill in knowledge gaps on threat actors and modus operandi.(U)

Prepared by: J.G. , Trade Fraud and Trade-Based Money Laundering Centre of Expertise



¹ John A. Cassara. Trading with the Enemy: Trade-Based Money Laundering is the Growth Industry in Terror Finance. Written testimony before the US House Financial Services Committee. 2016-02-03.

² Global Financial Integrity. Illicit Financial Flows to and from 148 Developing Countries: 2006- 2015. January, 2019.
<https://www.gfinintegrity.org/wp-content/uploads/2019/01/GFI-2019-IFF-Update-Report-1.29.18.pdf>

³ Global Financial Integrity. Trade-Related Illicit Financial Flows in 135 Developing Countries: 2008-2017. 2020-03-03.
<https://secureservercdn.net/45.40.149.159/34n.8bd.myftpupload.com/wp-content/uploads/2020/03/GFI-Trade-IFF-Report-2020-Final.pdf?time=1588394966>

⁴ R3 [REDACTED]

⁵ Ibid.

⁶ Financial Crimes Enforcement Network (FinCEN). Advisory to Financial Institutions on Filing Suspicious Activity Reports regarding Trade-Based Money Laundering. FIN 2010-A001. 2010-02-18.

⁷ Asia Pacific Ground on Money Laundering. Trade-Based Money Laundering Typologies. 2012-07-20. <http://www.fatf-gafi.org/publications/methodsandtrends/documents/trade-basedmoneylaunderingttypologies.html>



Intelligence Collection, Analysis & Production Division



COVID-19 Implications for Trade Fraud

ICAP_2020-APR-004

INTELLIGENCE BRIEF

Highlights

Criminal networks are quickly adapting their activities to profit from public fear of contracting COVID-19, as well as to exploit opportunities created through various government responses to the pandemic. Heightened demand for medical, biotechnology and pharmaceutical products may lead to increased attempts at cross-border profiteering. At the same time, many traditional money laundering channels have been reduced by quarantine measures. In the short-term, these shifts in criminal behaviour may lead to increased use of customs fraud techniques to profiteer from COVID-19 related goods, as well as to launder illicit financial flows to and from Canada through trade (i.e. trade-based money laundering).

However, any increases in the volume of these activities are likely to be offset by a looming global supply chain contraction. Supply of many of the discretionary goods that are used to front customs fraud schemes will soften as the cascading impacts of quarantine measures begin to take hold on the global economy. Unexpected shifts in import or export behaviours that do not align with emerging economic conditions may indicate attempts at illicit activity. Various agri-food, electronics, used clothing and scrap-metal commodities are susceptible to customs fraud and are likely to be used to conceal illicit activities.

Background

1. There is broad consensus from recent government and open source reporting that many criminal networks have quickly diversified in order to profit from the COVID-19 crisis. The range of pandemic restrictions and quarantine measures in place globally have slowed some criminal activity. However, crimes of opportunity that either play on public fear of contracting the virus, or those that exploit personal, private sector and government responses to the crisis, primarily involving the healthcare, biotechnology and pharmaceutical sectors, are believed to be on the rise.
2. In addition to the shifting locus of illegal activity, the pandemic has also created the need for criminal groups to adapt their money laundering tactics. Many of the businesses typically

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used by organized crime to launder, including the casino, money services, food and beverage, fitness, general services and retail sectors have either closed or seen their viability decrease substantially as quarantine measures increase. Cross-border money laundering through bulk cash smuggling is also susceptible to border closures and travel limitations (although individual amounts, when identified, could be higher than usual).

3. The importation and exportation of goods through international trade is already highly conducive to both profiteering and money laundering. Criminals routinely take advantage of customs processes by intentionally mis-describing the value, quantity, quality, weights and descriptions of goods to evade duty and regulatory requirements, to conceal the descriptions of goods in order to smuggle, or to launder illicit value and resources to and from Canada.
4. In trade-based money laundering (TBML) schemes, abusing trade processes creates the pretext for criminals to wire money across borders in payment for goods, whether they are shipped or not. In March 2020, Global Financial Integrity, a US-based non-governmental organization estimated that as much as USD \$8.7 trillion in illicit wealth had been transferred from developing countries to the developed world between 2008 and 2017 through abuse of the customs process.
5. Physical examinations of goods by customs services to verify the accuracy of customs declarations can detect many of these activities, however, less than 2 percent of shipping containers are physically examined on average globally for annual exports of close to USD \$18 trillion (World Trade Organization, WTO, 2017 estimates).
6. Many of the examinations that do take place are conducted for public safety and national security purposes, or to verify duty requirements for imported goods. Non-dutiable goods not typically used as fronts for contraband or drug smuggling, as well as exported goods, are far less likely to be examined, and are more likely to be exploited for TBML.
7. Moreover, shippers, freight forwarders, customs brokers and other trade chain participants have no legislated requirement to report suspicious trade transactions to Canada's financial intelligence unit, Financial Transactions and Reports Analysis Centre (FINTRAC), or to the CBSA, which further limits detection and enforcement opportunities.

Analysis

8. An increase in the use of trade fraud techniques to profiteer from both counterfeit and legitimate medical, biotechnology and pharmaceutical goods involved in COVID-19 responses, and to launder illicit financial flows, is expected in coming weeks and months.



The border will be an attractive conduit to exploit, as it remains open to the vital commercial trade activity that is sustaining much economic activity.

9. **Profiteering:** High-demand COVID-19 related goods can be quickly sold, their true prices vary across jurisdictions or may be difficult to verify, and certain criminals may believe that the CBSA has limited ability to examine them. All of which are key characteristics of goods conducive to the price arbitrage that fuels profiteering activities.
10. Medical supplies, such as respirators or hand sanitizer, can be mis-described by criminals using different values, prices, weights or different product descriptions entirely to evade increasing scrutiny and export controls in some jurisdictions. According to the WTO, trade in critical medical products now in severe short supply totaled just under USD \$600 billion in 2019, or about 1.7 percent of total global merchandise trade. Tariffs on many of these goods remain high; on average, the global applied tariff on medical products is 4.8% enhancing the incentive to mis-describe goods to evade duties (most Canadian tariffs are concentrated around personal protective products in Chapter 34).
11. However, these products will almost certainly be subject to heightened scrutiny due to concerns around the potential for corruption, fraud, smuggling, and price-gauging associated with them. Criminal actors, even pandemic profiteers, will be more prone to continue mis-describing more mundane goods (equally susceptible to TBML), such as agri-foods, used clothing, and electronics.
12. **TBML:** COVID-19 further weakens anti-money laundering (AML) controls over global trade and creates further incentives to exploit customs processes for money laundering. Regardless of the type of good used or the source of the illicit funds, the allure of TBML is heightened by the fact that workplace limitations to “flatten the curve” of the virus spread have reduced financial institution capacities for AML due diligence, oversight and suspicious transaction reporting. At the same time, many government organizations have focused their efforts on more immediate public safety concerns and front-line harm reduction efforts.
13. These COVID-19 limitations will be compounded by pre-existing challenges facing both customs services and financial institutions in detecting TBML, including the use of shell and front companies to either hide true ownership or conceal illicit activity within a legitimate business. Staff in both domains also lack training and awareness of TBML, and neither can access the full range of financial transaction, customs, sales and shipping data necessary to uncover laundering activity.
14. Moreover, the volumes of financial transactions that facilitate international trade are immense, but only 20 percent are financed (requiring extensive proof to satisfy bank lending



requirements), while banks merely facilitate the transfer of funds on the remainder, with no supporting information available to uncover and flag illicit activity required.

Implications for the Canada Border Services Agency (CBSA) and Canada

15. In the medium-term, TBML and other customs fraud schemes are likely to revert to “net even”, as the negative impacts of COVID-19 measures increasingly hampers the global economy and drives down trade chains supporting many of the discretionary goods used for TBML.
16. The WTO notes significant declines in container shipping and port throughput, highlighting that the crisis has caused “dramatic” supply shocks which are beginning to cause major trade disruptions. The organization forecasts that global trade volume could decline by as much as 32 percent this year. Trade flows, particularly those linked to countries more affected by the virus and the measures put in place to contain it, should be expected to decrease over the coming months.
17. Increased involvement in international trade during this period is not, in itself, an indicator of higher profiteering or money laundering risk. However, any unexpected import or export activity that does not align with current economic prospects, particularly in relation to the discretionary goods that will be used in both smuggling and money laundering schemes (including electronics, used clothing, forestry products and, particularly, agri-foods), may be related to attempts to transmit illicit financial flows.

Prepared by: Trade Fraud and Trade-Based Money Laundering Centre of Expertise

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TRADE-BASED MONEY LAUNDERING: A Law Enforcement Perspective

C/M Bryanna Gateley
Criminal Intelligence Analyst
RCMP FSOC Group 5

Appendix BB



Outline:

- **TBML in the ML Process**
- **What is TBML?** (definition and schemes)
- **Challenges of TBML** (strategic, organizational)
- **The way forward?** (policy options)
- **The future of TBML?** (tactical considerations)



3 Stages of Money Laundering:

Placement



Layering ← TBML



Integration

Definition:

“The movement of illicit funds through commercial transactions and organizations that are and/or appear to be legitimate.“

- Main method used by OC / terrorist financiers to transfer value or finance activities. (FATF)
- Received limited attention within Canadian AML regime (GoC)
- Not capital flight or trade fraud.
- Requires a complicit seller / buyer or dual-presence
- Often involves easily liquidated / distributed goods
- Includes goods and services (ex. consulting)



Schemes:



Transferring goods to finance illicit product / activities

- Ex. Vehicles to Africa for drugs
- Ex. Stolen vehicles to Africa → Diamonds → \$ to cartel for drugs
- Ex. Baby food to China?
- Ex. Sale of antiquities / oil to finance terrorism

Schemes:



Various forms of customs fraud:

- **Misrepresentation of price or quantity** (ex. timber, wine, fruit)
- **Misrepresentation of quality** (ex. gold hardware, granite)
- **Multiple invoicing / phantom shipments** (ex. voided car purchases)
- **Misidentifying final recipient / destination of good** (ex. dual-use goods)



Schemes:



Customs Fraud + ...

- Layering
- Shell companies
- Offshore accounts
- Nominees
- Legal Trusts
- Third-party payment methods / Freight-forwarders
- Transit through FTZs or non-cooperative jurisdictions
- Use of crypto-currencies
- Co-mingling with real estate / casinos

Strategic Challenges:

- **Multiple stake-holders (domestic & international) required to tackle TBML presents coordination / logistical challenges.**
 - INT'L: Multiple countries/agencies, differing governance/legal regimes
 - DOMESTIC: Information consumers / providers
- **Trade volume (ie. a needle in a needle stack)**



Strategic Challenges (con't):

- **Measures to combat TBML cannot hinder legitimate trade (limits available options).**
 - Ex. “Traders” not included in current AML/CTF reporting regime.
 - FINTRAC does not collect all relevant data (ie. Letters of Credit, EFTs under \$10K, domestic EFTs, trade transactions handled by lawyers).

Organizational Challenges:

- Opaque / paper-based trade systems and long supply chains prevent effective monitoring (ie. buried data).
- Ill equipped to detect suspicious transactions (ie. hard-to-value goods).
- Information sharing at domestic & international level is ad-hoc, case-by-case, target-specific, manual. Difficult to extrapolate trends, indicators, scope.

Organizational Challenges (con't):

- **Raising awareness of TBML and flagging it in files**
 - Requires training and expertise in trade finance.
- **Addressing IT shortcomings**
 - Multiple databases with restricted access.
 - New software needed to analyze TBML at aggregate level.
- **Developing FININT to address intel gaps**
 - Training CI handler's to solicit FININT



The Way Forward?

Due to complex nature of TBML a variety of measures will need to be pursued concurrently:

- Training in TBML and Trade Finance
- Inter-agency working group
- Partnerships with other countries/agencies (MOUs and bi-lateral agreements)
- Leverage LOs / ADOs abroad
- Modernize IT
- Engaging information collectors to address intelligence gaps



Future of TBML? (Tactical considerations)

- **Flexibility in determining the predicate offence** (ex. customs / tax fraud offences)
- **Professionalization of TBML** (presence of amalgamated and seemingly uncorrelated transactions)
- **Fewer x-border cash transactions** (ex. drugs for precursors)
- **Prepare to be confused** (ex. Ghost VINs)
- **Co-mingling with casinos and real estate**
- **Investigational paradigm shift**

QUESTIONS?

C/M Bryanna Gateley

Ph:

V1

Bryanna.Gateley@rcmp-grc.gc.ca





Canada Revenue
Agency

Agence du revenu
du Canada

Trade-Based Money Laundering: Canadian Perspective

April 25th, 2018
FinCEN, Virginia USA

TBML in Canada - Overview



Agence du revenu
du Canada

1. Canadian Context
2. Organizational Mandates
3. Threat Environment
4. Challenges
5. Opportunities
6. Case Study
7. Q&A

Canadian Context



Canada Revenue Agency
Agence du revenu du Canada

Agence du revenu du Canada

- Magnitude of the threat remains unknown, but likely high
 - Indication that higher-level federal targets have ability/intent to engage in TBML.
- High degree of risk exposure:
 - Trade not widely viewed as an ML vector – affects controls
 - Horizontal problem with no one clear owner
 - Limited knowledge, awareness and dedicated resources
 - Buried data (paper-based trade systems and long supply chains prevent effective monitoring)
 - Limited exchange of customs information, limited automation (ad-hoc, case-by-case, target-specific, manual) makes it difficult to extrapolate trends, develop indicators, and identify scope.
 - Circular policy trap: resources are required to prove resources are needed
 - IT challenges (multiple databases with restricted access; New software needed to analyze TBML at aggregate level)
- FATF reinforces “traditional” AML-ATF norms
 - Measures to combat TBML cannot hinder legitimate trade (limits options available)
 - Ex. “Traders” not included in current AML reporting regime.
 - FINTRAC does not collect all relevant data (ie. Letters of Credit, international EFTs under \$10,000, domestic EFTs of any amount, trade transactions handled by lawyers).
- High level of harm for Canada and Canadians
 - Economy, government revenues, public safety, reputation

Mandate - RCMP



- The mission of E Division FSOC is to disrupt, dismantle and support prosecution of serious and organized crime groups and their members in conjunction with our **domestic and international partners**. E Division FSOC is an amalgamation of former Federal programs: Drug Enforcement Branch (DEB), Integrated Proceeds of Crime (IPOC), Commercial Crime Section (CCS), Integrated Border Enforcement Team (IBET) and Integrated Market Enforcement Team (IMET). By forging into one section, E Division FSOC now has the ability **to go wherever the evidence leads them for more effective law enforcement action**. As such, the FSOC investigative groups work on various Provincial and National priorities.

Mandate - CBSA



Canada Revenue
Agency

Agence du revenu
du Canada

- CBSA is responsible for providing integrated border services that support national security and public safety priorities and facilitate the free flow of persons and goods, including animals and plants, that meet all requirements under the program legislation.
- CBSA conducts *Customs Act* (CA) criminal investigations involving commercial trade fraud, a key TBML predicate.
- CBSA must refer CA offences involving criminal organizations or national security to the RCMP

Mandate - FINTRAC



- Canada's Financial Intelligence Unit (FIU)
- Mandated to detect, prevent & deter money laundering and terrorist activity financing.
- Main operational areas:
 - Compliance Sector – AML/CTF Regulator. Examines Reporting Entities;
 - Intelligence Sector – Produce financial intelligence for LE partners;
 - Strategic Intelligence function.

Mandate - CRA



 Canada Revenue Agency
Agence du revenu du Canada

 Agence du revenu
du Canada

- The overall mandate of the Criminal Investigations Division is to enhance compliance with the various acts administered by Canada Revenue Agency through effective enforcement actions and, thereby, contribute to the public trust, fairness and integrity of the self-assessment system.
- The Canada Revenue Agency's Criminal Investigations Program investigates significant cases of tax evasion and, where appropriate, refers cases to the Public Prosecution Service of Canada for criminal prosecution.

Canadian TBML Trends



Agence du revenu
du Canada

RCMP perspective

- Some indication that TBML commodities include vehicles, fruit, diamonds;
- Vulnerable sectors (timber, granite, antiquities);
- Multi-commodity TBML (vehicles → diamonds);
- Co-mingling with real estate and casino transactions.

Canadian TBML Trends



FINTRAC perspective

- Common denominator: real business activities;
 - Canadian variations of the BMPE scheme;
 - USD Proceeds from Latin America/Mexico
 - USD Proceeds from the U.S.
 - USD going to CN/HK
 - Domestic Canadian proceeds
 - Potentially going to the U.S. BMPE networks
 - Potentially going to CN/HK as part of Mex/Col BMPE networks
- Strong nexus to trading companies / wholesalers;
- Type of industries identified:
 - Agri-food;
 - Industrial equipment;
 - Textile;
 - Lumber
 - Pulp and paper;
 - Electronics;

FINTRAC Observed Schemes

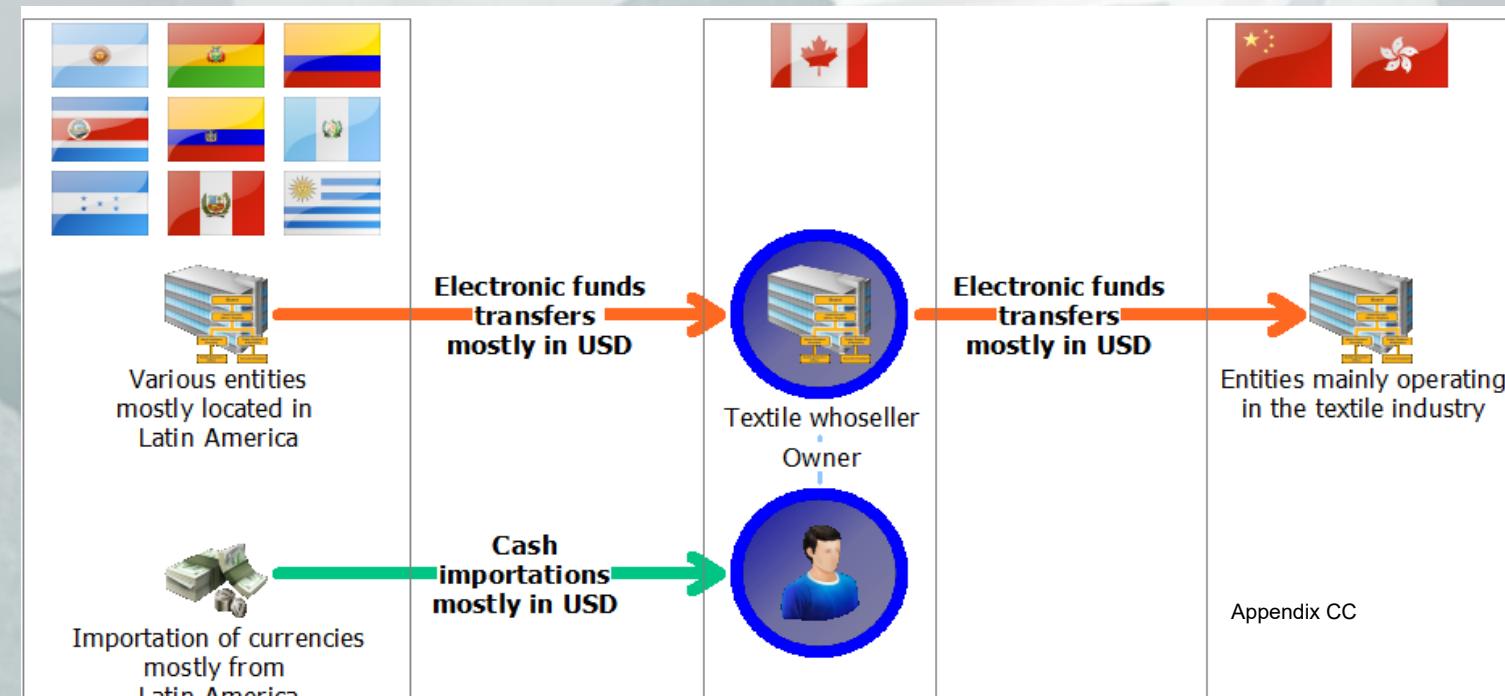


Canada Revenue
Agency

Agence du revenu
du Canada

Scheme 1: Textile wholesaler

- Importation of bulk cash and EFTs from Latin America
 - Mostly USD but also various other currencies including Euros
- EFTs from Mexico – to US companies linked to TBML activity
- EFTs to China/HK



FINTRAC Observed Schemes



Canada Revenue Agency
Agence du revenu du Canada

Scheme 2: Agri-food broker/wholesaler

- Beneficiary of EFTs from businesses around the world, but predominately Latin America.
- Sent EFTs to agri-food businesses predominately located in USA, Canada, Australia and Argentina.
- Beneficiary of EFT from UAE trading company designated by OFAC as linked to the Khanani Money Laundering Organization
- Same Mexican businesses sending money to both the agri-food business AND the textile wholesaler (previous slide).

FINTRAC Observed Schemes



Canada Revenue
Agency

Agence du revenu
du Canada

Scheme 3: Construction/Architectural supply business

- \$20 million in from account held at a Chicago based commercial bank
- \$20 million out to Chinese/HK entities
- HK entity also receiving EFTs from multiple senders - links to BMPE schemes
 - Other Canadian senders:
 - factoring companies
 - agri-food broker (receiving \$\$\$ from Dubai)

FINTRAC Observed Schemes



Canada Revenue
Agency

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du Canada

Scheme 4: Trading company – consumer electronics

- Up to \$500k/month for electronics on Credit Card
- Funded by overpayments via EFTs to US account held by CC company
- Incoming EFTs from USA, Argentina and Australia
- Outgoing EFTs to USA, Australia and Hong Kong
 - Includes \$18 million over 3 years to account held at Chicago based Commercial bank

FINTRAC Observed Schemes



Canada Revenue
Agency

Agence du revenu
du Canada

Scheme 5: Trading companies – Lumber, Pulp, and paper

- EFTs from Mexico to Canadian trading companies;
- Lumber, Pulp, and paper is shipped to China
- \$FLOWS??

FINTRAC next steps

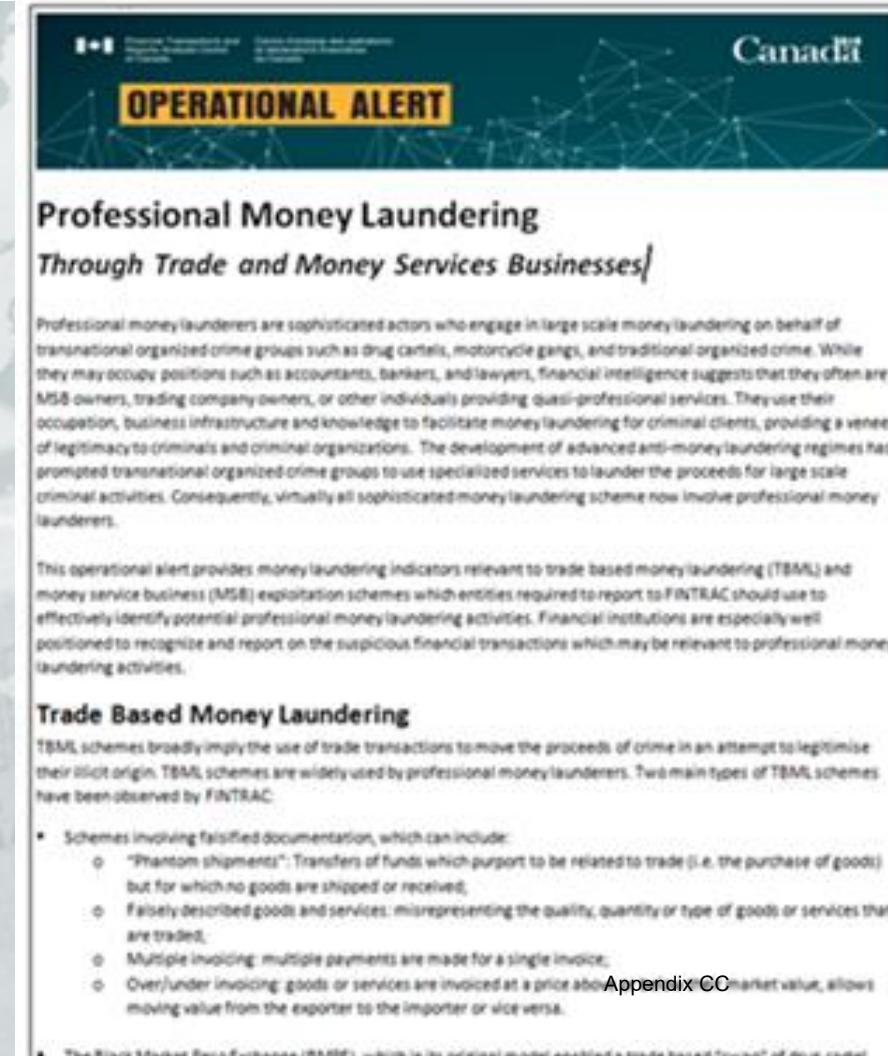


Agence du revenu
du Canada

- Upcoming FINTRAC Operational alert on Professional Money Laundering

- **TBML features prominently:**

- Public document primarily aimed at providing guidance to reporting entities;
 - Based on recent TBML observations;
 - Provides basic background and indicators.



The image shows a screenshot of a FINTRAC operational alert. At the top, there are two small emblems: the Royal Canadian Mounted Police crest on the left and the coat of arms of Canada on the right. Below them is a yellow banner with the text "OPERATIONAL ALERT" in black capital letters. The main title of the alert is "Professional Money Laundering Through Trade and Money Services Businesses". The alert discusses professional money launderers as sophisticated actors who engage in large-scale money laundering on behalf of transnational organized crime groups. It notes that while they may occupy positions such as accountants, bankers, and lawyers, they often are MSB owners, trading company owners, or other individuals providing quasi-professional services. The alert also states that these launderers use their occupation, business infrastructure, and knowledge to facilitate money laundering for criminal clients, providing a veneer of legitimacy to criminals and criminal organizations. It highlights that the development of advanced anti-money laundering regimes has prompted transnational organized crime groups to use specialized services to launder the proceeds of large-scale criminal activities. The alert concludes by stating that virtually all sophisticated money laundering schemes now involve professional money launderers.

This operational alert provides money laundering indicators relevant to trade-based money laundering (TBML) and money service business (MSB) exploitation schemes which entities required to report to FINTRAC should use to effectively identify potential professional money laundering activities. Financial institutions are especially well positioned to recognize and report on the suspicious financial transactions which may be relevant to professional money laundering activities.

Trade Based Money Laundering

TBML schemes broadly imply the use of trade transactions to move the proceeds of crime in an attempt to legitimise their illicit origin. TBML schemes are widely used by professional money launderers. Two main types of TBML schemes have been observed by FINTRAC:

- Schemes involving falsified documentation, which can include:
 - "Phantom shipments": Transfers of funds which purport to be related to trade (i.e. the purchase of goods) but for which no goods are shipped or received;
 - Falsely described goods and services: misrepresenting the quality, quantity or type of goods or services that are traded;
 - Multiple invoicing: multiple payments are made for a single invoice;
 - Over/under invoicing: goods or services are invoiced at a price above market value, allowing value from the exporter to the importer or vice versa.
- The Black Market Peso Exchange (BMPE), which in its original model enabled a trade-based "swap" of drug cartel

Challenges



- Monetary instrument definition
- Horizontal coordination (within and outside government)
- Information sharing – domestic
- Information sharing – international (Trade Transparency)
- Crown prosecutor engagement
- Responding to FATF findings vs. domestic imperatives
- Valuations of antiquities and hard-to-value goods
- Determining the predicate offence
- Indication that criminal networks are setting up offshore bank accounts in non-cooperative jurisdictions.
- Professionalization of TBML (ie. facilitators specializing in TBML for criminal networks)
 - Presence of amalgamated and seemingly uncorrelated transactions.
- Co-mingling with real estate / casinos
- Schemes that include the use of shell companies, offshore accounts, nominees, legal trusts, cryptocurrencies, transit through FTZs or non-cooperative jurisdictions, third-party payment methods

Opportunities



- PCMLTFA Parliamentary Review – highlights from recent “white paper”?
- Data analytics / IT modernization (I may insert a separate slide here)
- Private sector engagement
- Inter-agency TBML working group (Ottawa and BC examples)
- Partnerships with other countries/agencies
- Investigational paradigm shift (ie. focus on domestic exporters of illicit product and corresponding incoming TBML transactions)
- Leveraging non-traditional information providers (i.e. EDC, GAC, IC, casinos)
- Leveraging liaison officers posted abroad
- Engaging information collectors to address intelligence gaps (ie. Handler’s of Confidential Informants).

FSOC Financial Integrity Trade Based Money Laundering

Overview of Investigative Strategy
RCMP FSOC-Financial Integrity
April 2018

SITUATION

- TBML has come to the attention of LEA in Canada. FATF 2006, 2008, 2014 [E-PHOTOTAXIS].
- Generally from a Canadian LEA perspective there is no formal, coordinated system in place to effectively detect, investigate and disrupt TBML in Canada.
- Specifically from E Division FSOC-FI's SMT the perspective is that investigating TBML is in congruence with the mandate of the Unit.
- *The mission of E Division FSOC is to disrupt, dismantle and support prosecution of serious and organized crime groups and their members in conjunction with our domestic and international partners. E Division FSOC is an amalgamation of former Federal programs: Drug Enforcement Branch (DEB), Integrated Proceeds of Crime (IPOC), Commercial Crime Section (CCS), Integrated Border Enforcement Team (IBET) and Integrated Market Enforcement Team (IMET). By forging into one section, E Division FSOC now has the ability to go wherever the evidence leads them for more effective law enforcement action. As such, the FSOC investigative groups work on various Provincial and National priorities.*

MISSION

- In general terms LEA's are utilizing intelligence based policing in order to comprehend connections between Organized Crime Groups, Geo-political forces, ideologies and legitimate industry used as "hosts" or conduits.
- In specific terms E Division FSOC-RCMP are seeking to utilize intelligence based policing with partnerships e.g. PPSC,CBSA,CRA and American LEA's.

TARGETS

- ▶ Targets = identified through intelligence.
- ▶ 1. Importation of Afghan heroin into Canada using couriers.
- ▶ 2. Involvement in financial crimes such as mass marketing fraud such as lottery schemes and bait letters.
- ▶ 3. Involvement in money laundering through their use of money mules who accept and transfer money through suspicious cash transactions and currency exchanges at money service businesses.
- ▶ 4. Involvement in trade based money laundering where household items, electronics and vehicles are shipped to African countries such as Tanzania. The sale of these items is believed to allow for the purchase of heroin in Africa. The heroin is then brought to Canada by the group through couriers/mules.

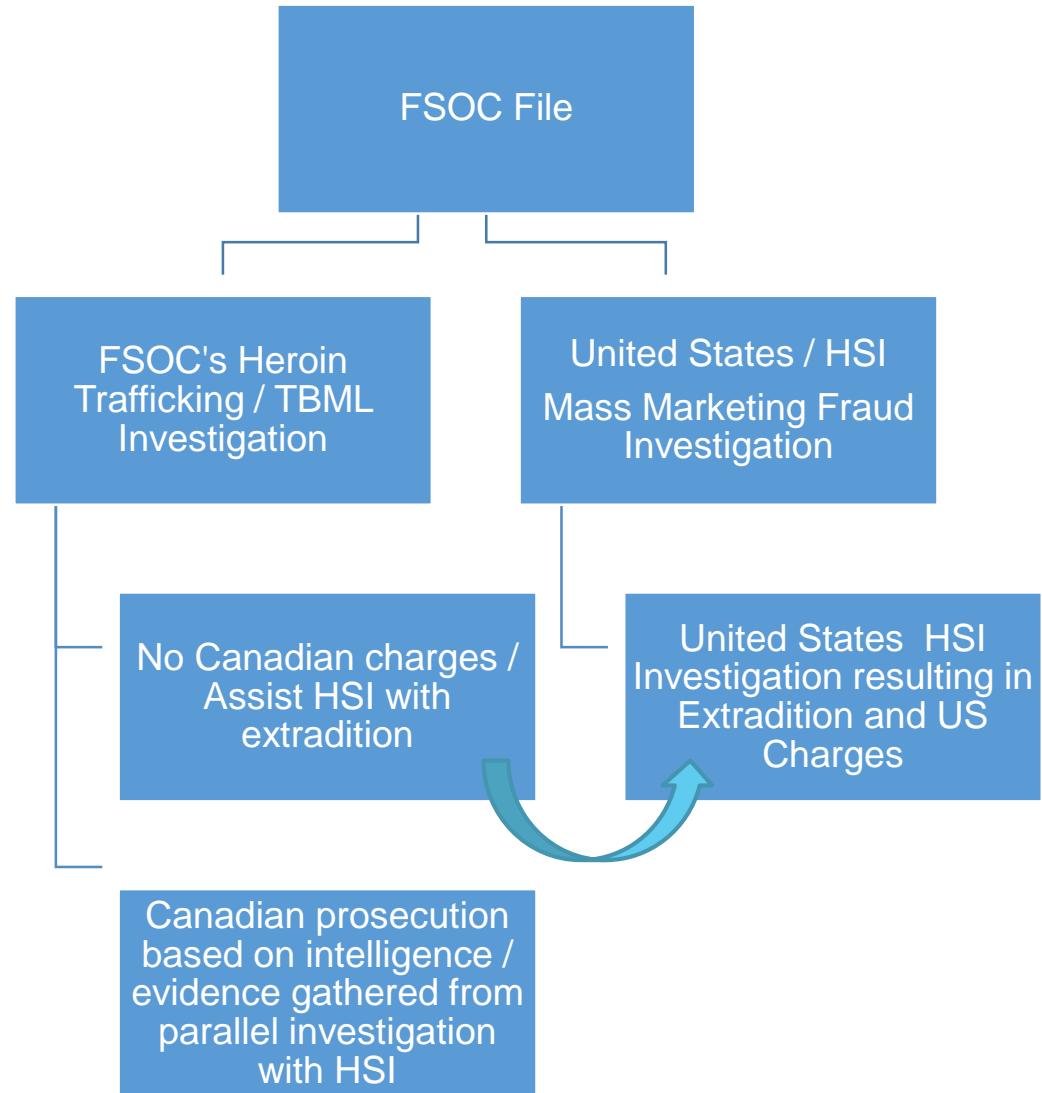
OVERVIEW, SCOPE, OBJECTIVE, RESULTS

- ▶ Overview = Suspects involvement with heroin trafficking (intelligence).
Suspects association to shipments of goods to Tanzania. Suspects association to established heroin importation routes and precedent (EPHOTOTAXIS).
Suspects association to mass marketing fraud in United States as a “side business.”
- ▶ Scope = Canada, United States, Africa, Europe.
- ▶ Objective = Primary focus is enforcement leading to prosecutions in Canada,
Secondary focus is disruption.
- ▶ Results = Canadian prosecution, American prosecution (independent),
disruption and establishment of intelligence database for future action.

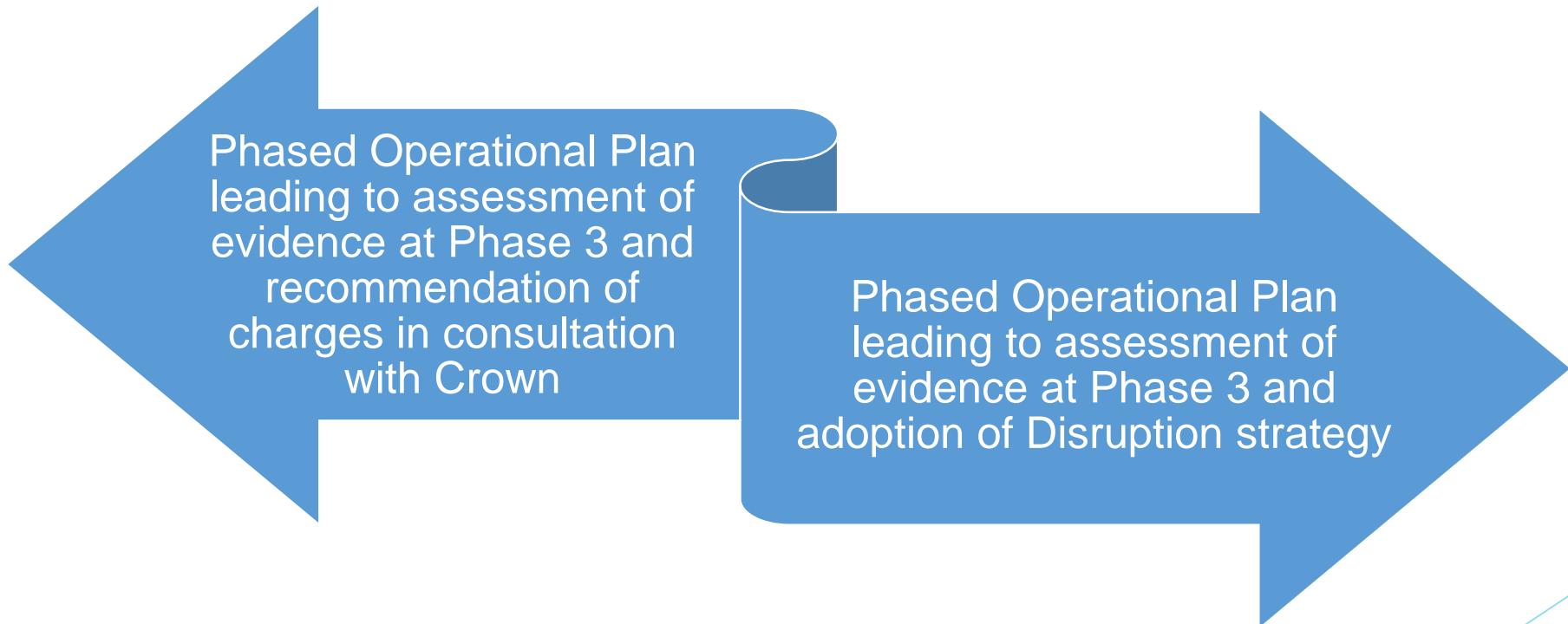
EXECUTION

- E Division FSOC RCMP have outlined an investigational plan focusing on identifying individuals engaging in trans-national organized crime.
- 3 suspects, 2 countries, 3 continents.
- Complexity of activity (Canada) (Africa-Europe) (CDSA Trafficking + TBML).
- The plan utilises partnerships for a comprehensive LEA and Government Agency effect on identified suspects.
- The plan unfolds...

Conceptual overview of the File



Conceptual overview of file...



Execution...

- The plan is a coordinated and phased roll out; key concepts (accountability) (partnerships) (empiricism)
- 5 phases

EXECUTION...

- ▶ **PHASE 1: Liaise with HSI / CBSA / CRA / PPSC Involvement**
- ▶ [1 - 2 months from start]
- ▶
- ▶
- ▶ **PHASE 2: Intelligence gathering, corroboration of information and surveillance to support investigation**
- ▶ [2 - 6 months from start]
- ▶
- ▶
- ▶ **PHASE 3: Assessment of evidence / Assessment of File**
- ▶ [at 6 month mark from start]

Execution...

PHASE 4: Focused Investigation / Intelligence Gathering / Investigative Techniques leading to Enforcement / Disruption

[6 - 10 months from start]



SCENARIO 1 – ENFORCEMENT



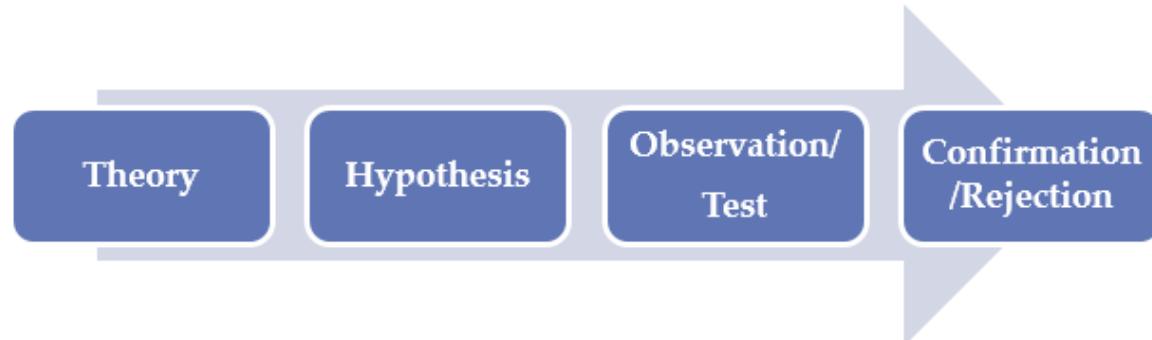
SCENARIO 2 – DISRUPTION

PHASE 5: Conclusion of Active Phases of Project / Disclosure

[10 - 12 months from start]

Accountability

- Evidence leads the investigation
- Phase 3 of this Ops Plan and overall continuous assessment vital to quality of investigation.
- Simple deductive approach which will sustain enforcement or intelligence



Communication

- Command / Control and lines of communication established through adherence to best practices [OISP] and established reporting lines.
- Partnerships with LEA's and Government Agencies vital for overall success.
E.g. PPSC / CBSA / CRA / HSI (working groups and enforcement deployments).
This is in line with established horizontal initiatives, federally funded.
- The desired effect to reduce criminality is a total, comprehensive approach where horizontal initiatives replace / supplement traditional vertical or linear enforcement models.

Cross Sector Collaboration (UK model)

- ▶ Some countries are more advanced in involving all trade counterparties in the fight against TBML: the UK's Joint Money Laundering Intelligence Taskforce (JMLIT), for example, includes the government, the British Bankers Association (BBA), the **National Crime Agency (NCA)** and more than 20 UK and international banks, with the aim of improving intelligence sharing in the fight against money laundering.
- ▶ Between May and July 2016, the JMLIT contributed to the following operational outcomes: **37** arrests of individuals suspected of money laundering, the instigation of **186** bank-led investigations into customers suspected of money laundering, the identification of **137** suspicious accounts, the heightened monitoring by banks of **165** accounts, the **closure of 114 bank accounts** suspected of being used for the purposes of laundering criminal funds, and the **restraint of £145,000 of suspected criminal funds**. The taskforce is also developing two alerts on money laundering methodologies that are currently being used by criminals to launder their criminal proceeds through UK banks. **The NCA is now working with counterparts around the world to help the development of similar initiatives.**

CONTACT DETAILS

RCMP	FINTRAC	CBSA
<p>Sushile.sharma@rcmp-grc.gc.ca Corporal Federal and Serious Organized Crime – RCMP E Division 778-290-4182</p>		<p>Jag.Johnston@cbsa-asfc.gc.ca Director Criminal Investigations Division Enforcement & Intelligence Operations Directorate 613-948-0506</p>
<p>Bryanna.Gateley@rcmp-grc.gc.ca Criminal Intelligence Analyst Federal and Serious Organized Crime – RCMP E Division 778-290-3771</p>		<p>Joel.Gibbons@cbsa-asfc.gc.ca Senior Program Advisor Criminal Investigations Division Enforcement & Intelligence Operations Directorate 613-948-3337</p>
-		<p>Karen.McMahon@international.gc.ca Liaison Officer Canadian Embassy, Washington 202-682-7600</p>

Q&A

[DO WE HAVE ANY QUESTIONS WE WOULD LIKE TO POSE TO CONFERENCE PARTICIPANTS?]



Trade Fraud & Trade-Based Money Laundering Centre of Expertise

The image shows the official crest of the Royal Canadian Mounted Police (RCMP). It features a central shield divided into four quadrants. The top-left quadrant contains a red maple leaf, the top-right a blue field with a white star, the bottom-left a white field with a red maple leaf, and the bottom-right a red field with a white star. Above the shield is a black and gold ornate crown. The entire crest is set against a background of grey maple leaves. The word "PROTECTION" is written in a bold, sans-serif font at the top, and "SERVICE" is at the bottom. In the center, the Latin motto "SOCIIS PROTECTORIUM SERVITIUM INTÉGRITATIS" is inscribed in a circular border.



PROTECTION • SERVICE • INTEGRITY

Canada



Authorities & Funding



Announced \$28M over four years (starting in 2020-21) and \$10.5M per year ongoing (total 48 FTEs) for the creation of a **“Trade Fraud and Trade Based Money Laundering Centre of Expertise”**

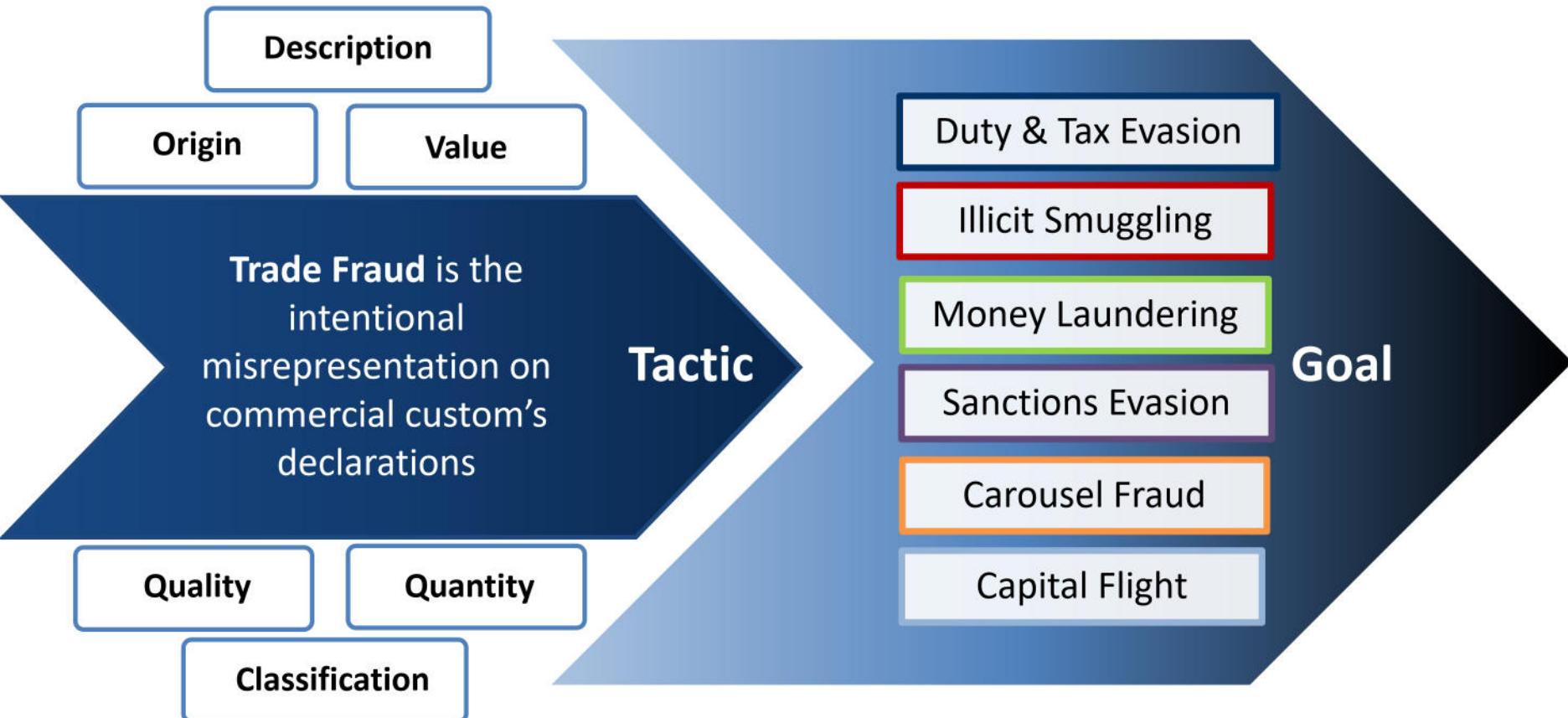
11 FTEs in 2020-21
+ 10 FTEs in 2021-22

21 FTEs to be funded on an ongoing basis

- ❖ Incremental funding starting in 2022-23 is frozen
- ❖ Report to President of Treasury Board required by March 2022 to **unlock funding for additional 27 FTEs**



What are Trade Fraud and TBML?



Trade Based Money Laundering (TBML): Disguising and moving criminal proceeds through the use of trade transactions (engaging in trade fraud to launder money).

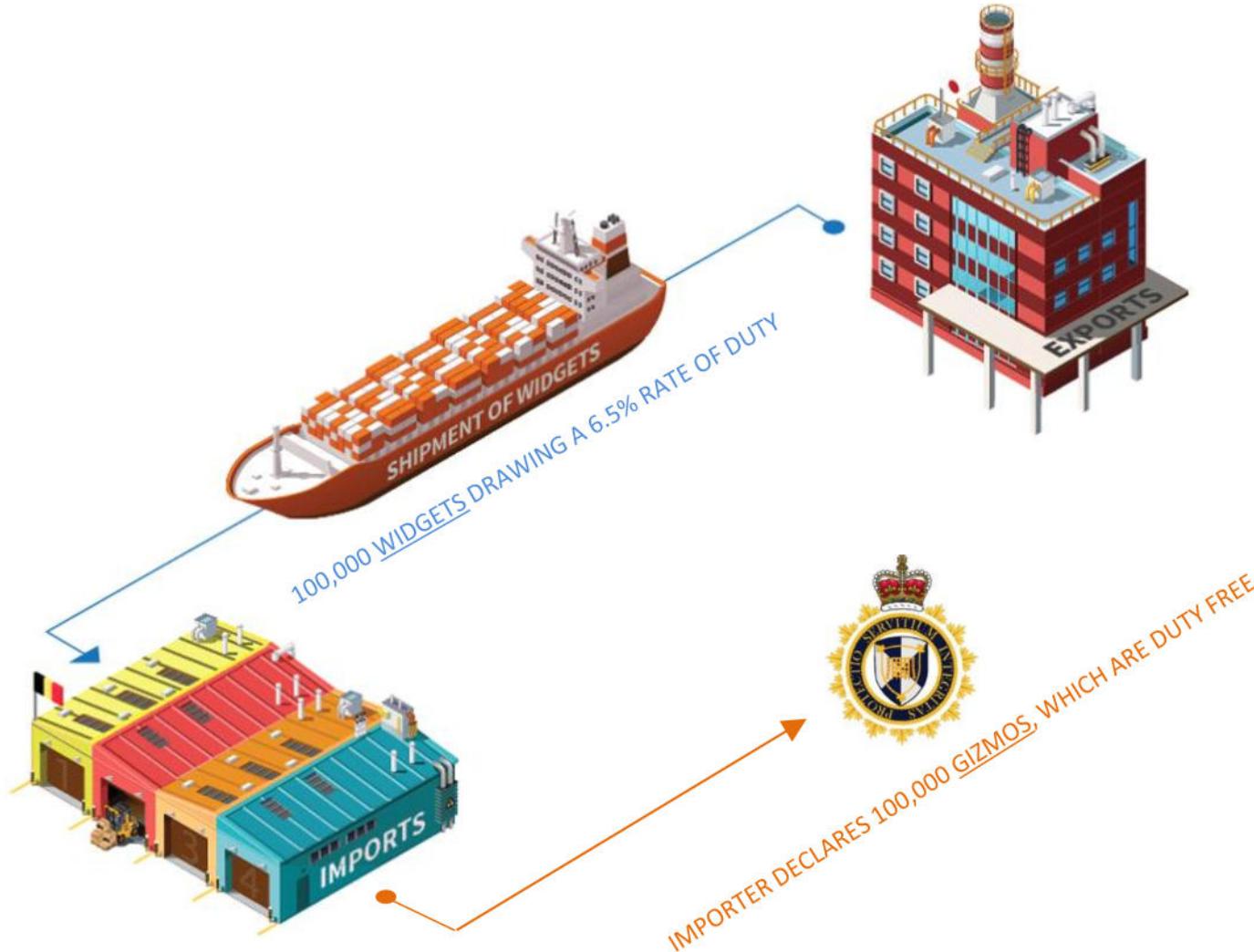


Trade Fraud Methods

Method	Description
Over Invoicing	By misrepresenting the price of the goods in the invoice and other documentation (stating it at above the true value) the seller gains excess value as a result of the payment.
Under Invoicing	By misrepresenting the price of the goods in the invoice and other documentation (stating it as below the true value) the buyer gains excess value when the payment is made.
Multiple Invoicing	By issuing more than one invoice for the same goods a seller can justify the receipt of multiple payments. This will be harder to detect if the colluding parties use more than one FI to facilitate the payments and or transactions.
Short Shipping	The seller ships less than the invoiced quantity of quality of goods thereby misrepresenting the true value of goods in the documents. The effect is similar to over invoicing.
Over Shipping	The seller ships more than the invoiced quantity of quality of goods thereby misrepresenting the true value of goods in the documents. The effect is similar to under invoicing.
Deliberate obfuscation of the Type of Goods	Parties may structure a transaction in a way to avoid alerting any suspicion to FIs or to other third parties which become involved. This may simply involve omitting information from the relevant documentation or deliberately disguising or falsifying it. This activity may or may not involve a degree of collusion between the parties involved and may be for a variety of reasons or purposes.
Phantom Shipping	No goods are shipped and all documentation is completely falsified.

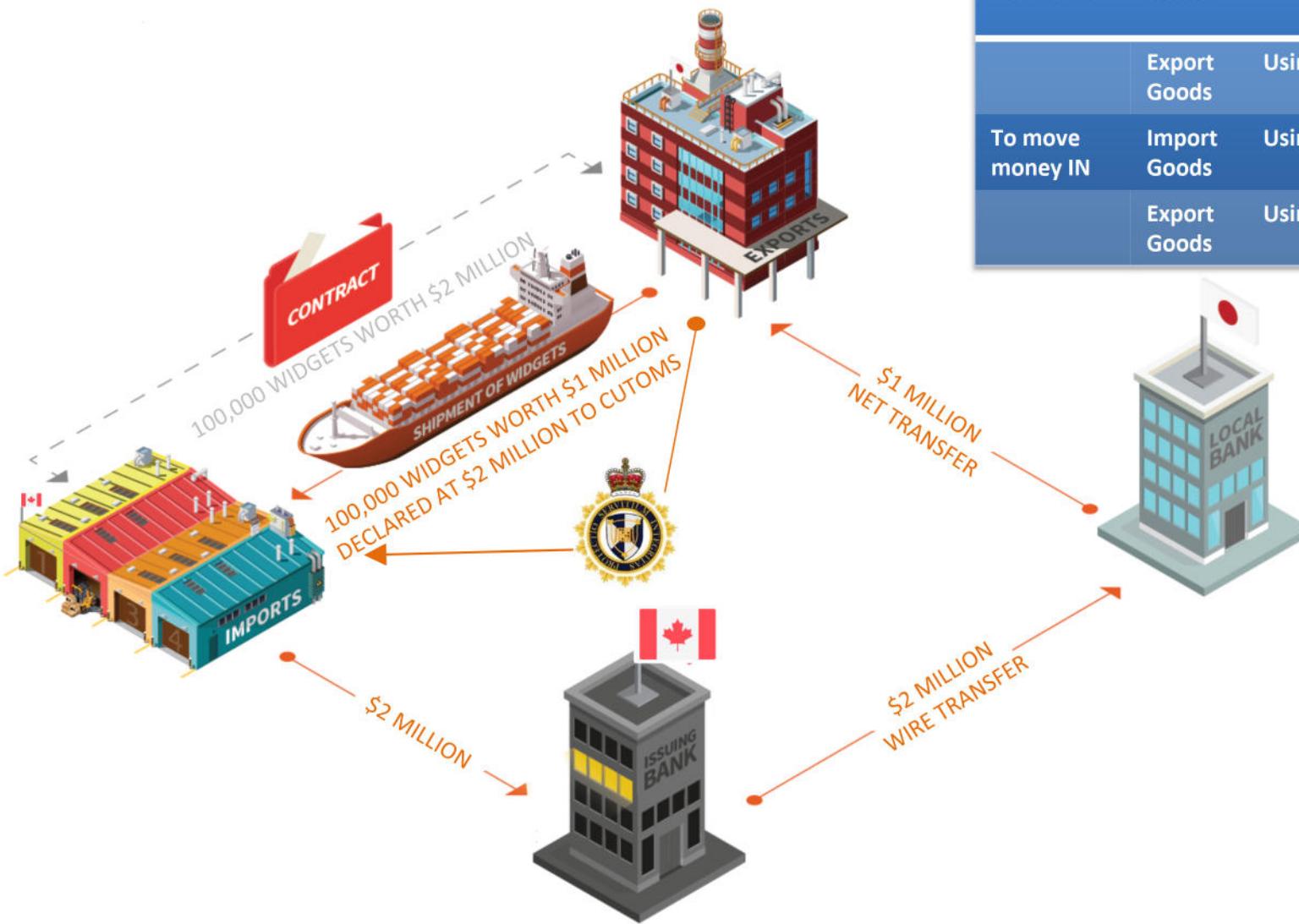


How Trade Fraud Works





How TBML Works





Information Sources



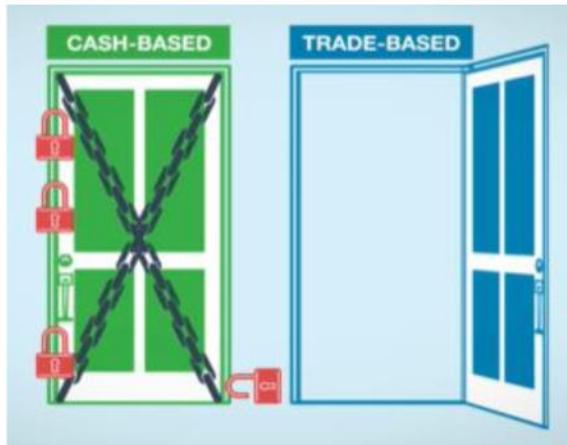
Customs	Intelligence	Non-Governmental	Trade Chain	Tax
<ul style="list-style-type: none">• Import/Export declarations• Aggregate data (analytics)• License/program information (e.g. summary reporting)	<ul style="list-style-type: none">• Financial (FIU)• Criminal• Customs• Immigration• SIGINT• HUMINT• US Office of Foreign Assets Control (OFAC) open sanctions database	<ul style="list-style-type: none">• Financial Action Task Force• World Customs Organization• Egmont Group• Investigative Journalists databases (e.g. Panama Papers)• Organized Crime and Corruption Reporting Project “ALEPH” database	<ul style="list-style-type: none">• Foreign customs data• Foreign company information and beneficial ownership information• Bills of Lading• Shipping Invoices	<ul style="list-style-type: none">• Canadian beneficial ownership• Taxable income (personal/corporate)• Business input costs (cost of goods sold)



Appeal of TBML

3 Main Money Laundering Methods

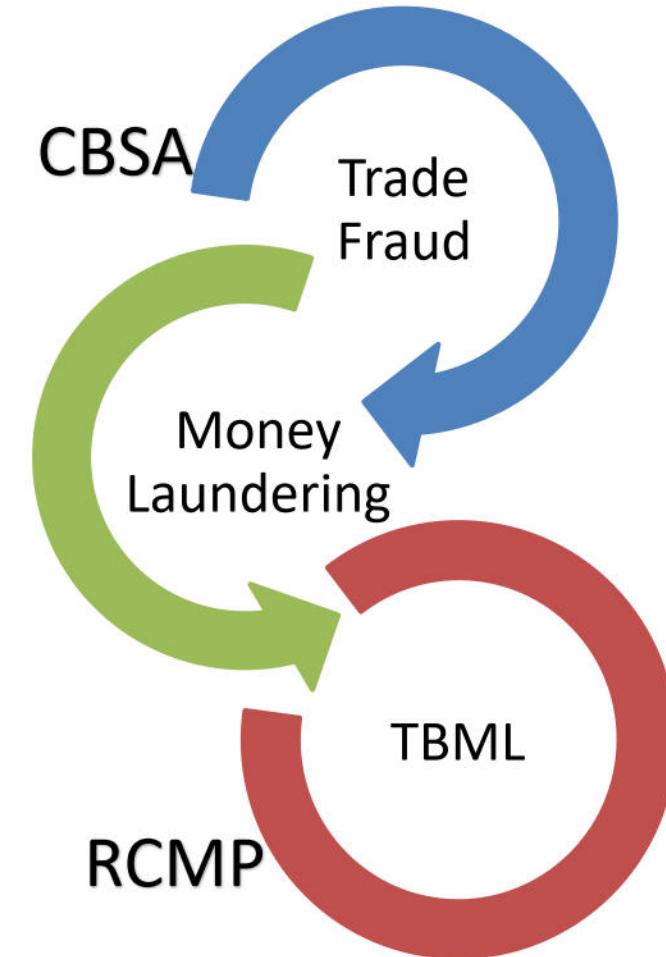
1. Financial Institutions	Paper trail, high AML controls
2. Bulk Cash	High risk of detection at borders or domestically
3. Trade	Low risk, high reward





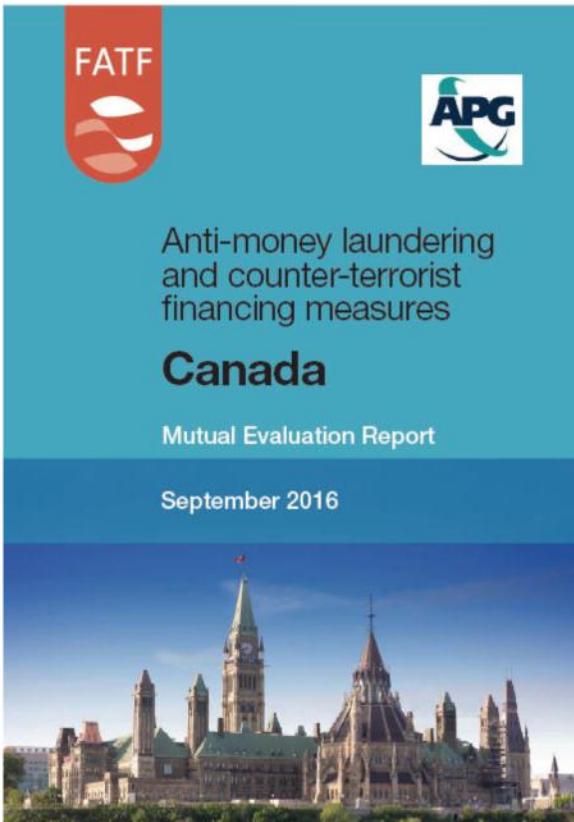
CBSA Roles and Responsibilities

TRADE FRAUD	TRADE-BASED MONEY LAUNDERING
<i>Customs Act (CBSA)</i>	<i>Criminal Code (Law Enforcement)</i>
Intent: to defraud national governments through customs “misinvoicing” aka “misdescription”	Intent: to disguise illicit financial flows and move value through the use of trade transactions in an attempt to legitimise their illicit origins
Method: manipulation of elements customs documents (aka trade fraud) such as: <ul style="list-style-type: none"> • Price paid • Quantity • National origin • Tariff classification • Physical description of the goods 	Method: trade fraud
CBSA = “TB”	RCMP = “ML”





Strengthening Canada's AML/ATF Regime





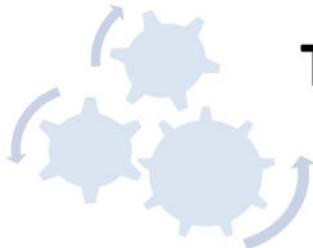
Government of Canada AML/TF Community



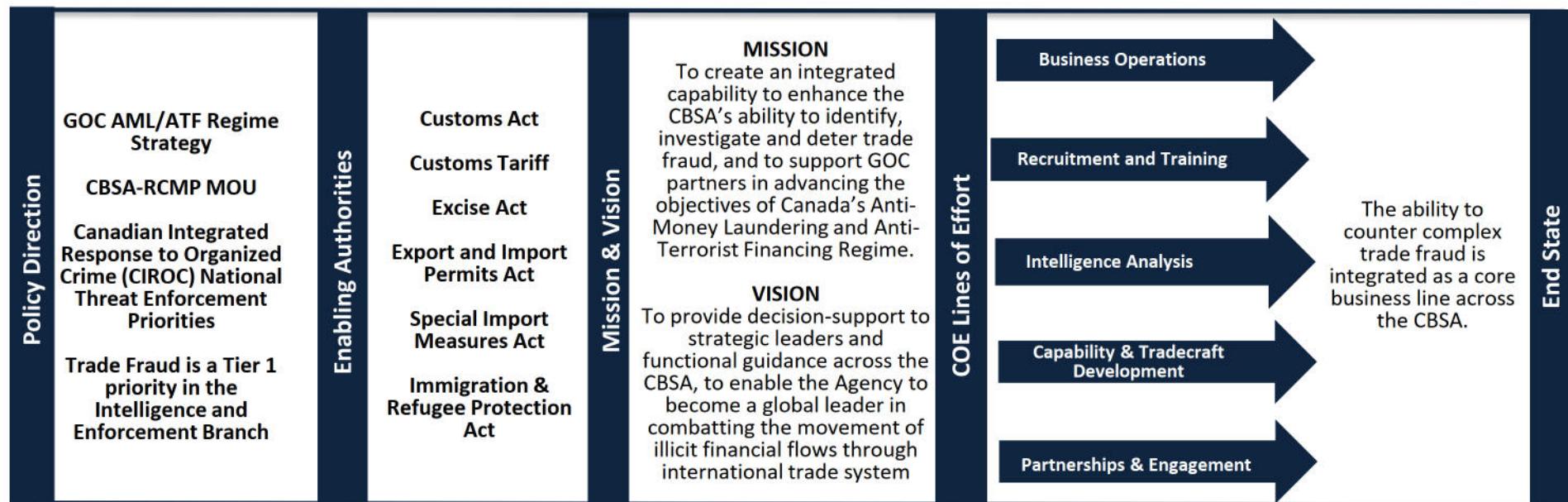


CBSA TF and TBML Community



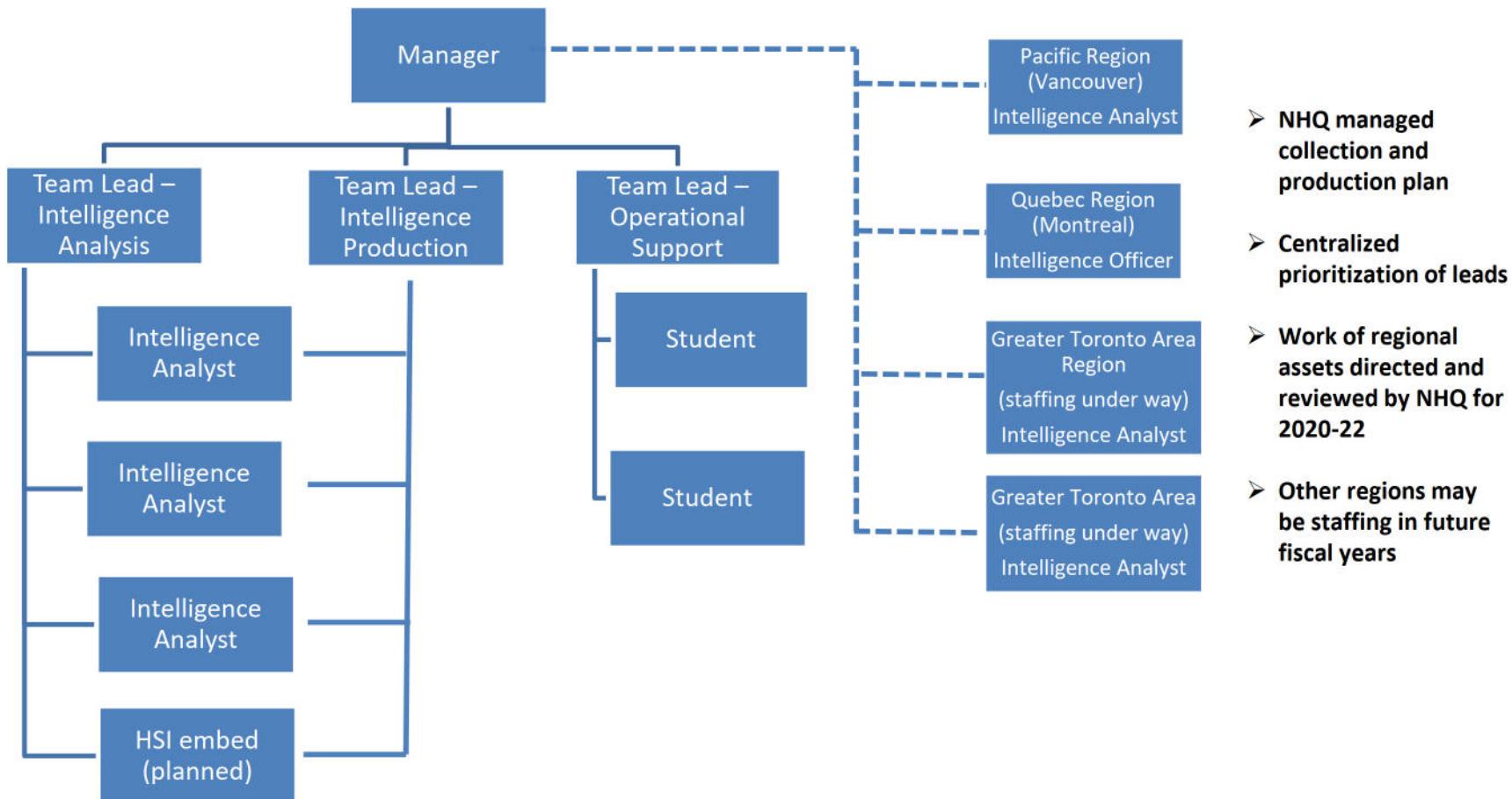


Trade Fraud and TBML Centre of Expertise Operating Framework





Structure: 2020/21





Lines of Effort

LOE 1: Business Operations

- Working Group / Desk Model / Track Log
- Results Table
- Financial set-up
- Establish lanes (INT analyst vs CI analyst)
- Webpage

LOE 2: Recruitment & training

- Staffing 75% complete
- Over 35 staff signed up for Financial Intelligence training
- Financial forensic accounting training - FAMG
- HSI training/seminar

LOE 3: Intelligence Analysis

- Production Plan
- Intelligence lead development (& spin-off plan to the regions for projects)

LOE 4: Capability & Tradecraft Development

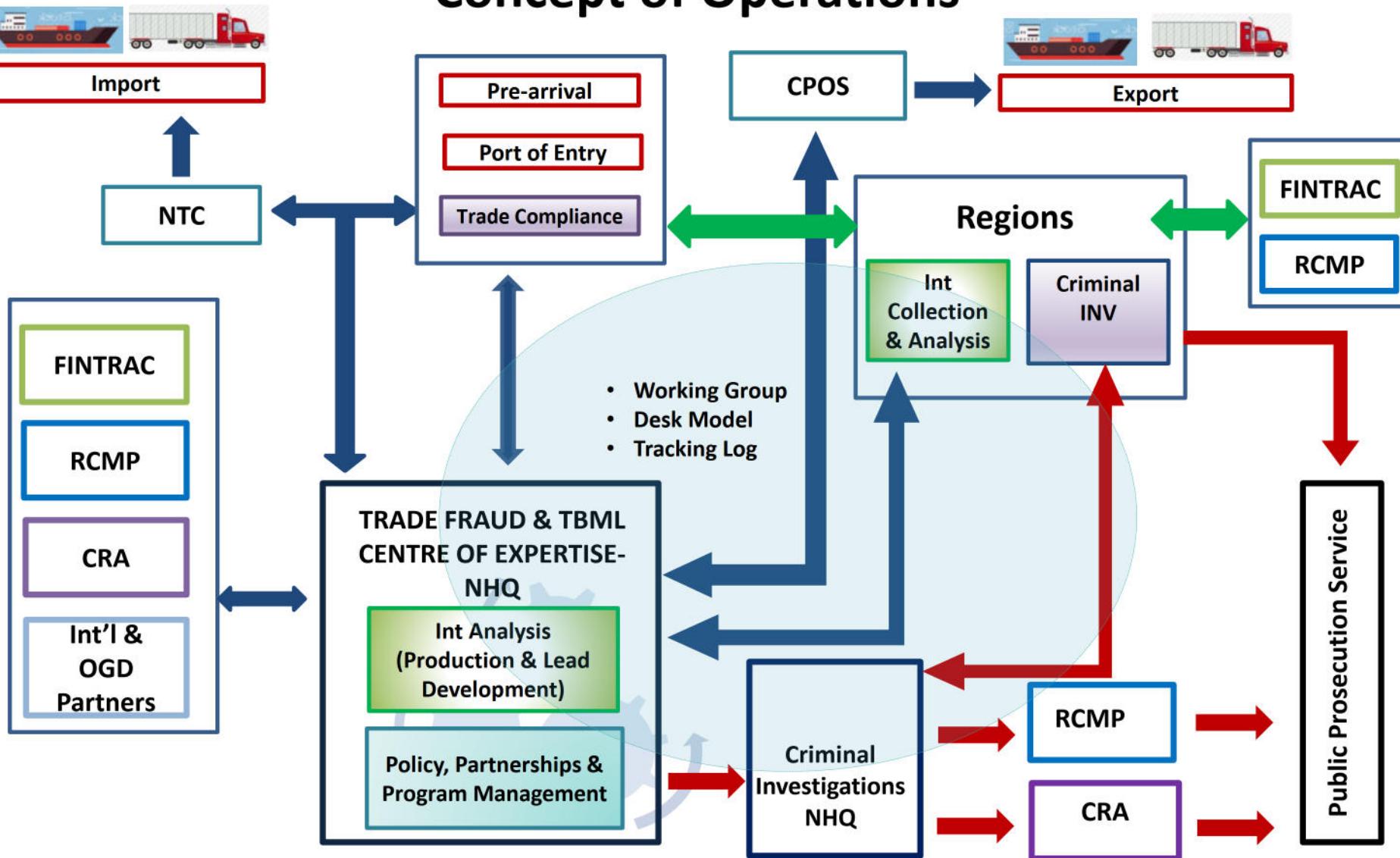
- Panjiva – info from trade chain participants (bills of lading)
- Leveraging CPOS target on export capabilities
- Data analytics

LOE 5: Partnerships

- HSI (Embed, training, biweekly call)
- CRA
- FAMG
- PS/RCMP – Integrated Proceeds of Crime model
- CBSA:
 - CDO
 - Trade – CARM Risking Model



Concept of Operations





Central Coordination

What?

- Build a community of intelligence and **investigative** staff across the country who work on trade fraud/TBML files

Why?

- Maintain situational awareness on intelligence leads/projects/production and investigations across the country
 - Need to leverage scarce resources towards priority files (severity, potential)
 - Ensure INT probes a region is working on does not disrupt larger project
 - Coordinate on projects across jurisdictions
 - Identify trends
 - Support investigations anticipate workload based on intelligence files being developed
- Create community to build knowledge (e.g. training opportunities - HSI)

How?

- Monthly Management calls (corporate focus)
- Monthly Desk calls (analytical focus)
- Deep dive project calls as required
- Tracking log (leads, projects, referrals, investigations)
- Generic COE mailbox that all trade fraud referrals will be sent to
 - Triage at NHQ (nexus, prioritization) and farm our to regions



Contact Information

General information:

CBSA.Trade_Fraud-Fraude_commerciale.ASFC@cbsa-asfc.gc.ca

Requests for Information (RFIs):

ITOC.COTR@cbsa-asfc.gc.ca



Audience: CBSA Intelligence & Enforcement, International Region,
 Trade Operations Division, Commercial Operations Division
 Enforcement and Intelligence Priority: Smuggling and Contraband

Issued: OCT 2020
 Expiry: OCT 2021

Intelligence Collection, Analysis & Production Division

Electronics and Canadian Goods Returned/ The Abuse of Tariff Codes 9813 and 9814 in TBML ICAP_2020-OCT-001



Recommended for Shift Briefing

Summary

- Recent Pacific Region Intelligence Section (PRIS) analysis of customs trade data related to suspected Trade Based Money Laundering (TBML) has identified a potential laundering scheme employing cross-border movement of electronics, used in connection with “goods returned” tariff items 9813.00.00 and 9814.00.00. (U)

Issue

- The Canada Border Services Agency (CBSA) has a mandate to identify and investigate the customs-based Trade Fraud (TF) that underlies TBML and to refer suspected laundering cases to the Royal Canadian Mounted Police (RCMP). (U)
- TBML is “the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimize their illicit origins.”¹ TBML is one of the most sophisticated methods of cleaning ‘dirty’ money. (U)
- TBML harms Canada’s national security, international reputation, economic security and revenue. (U)
- The suspected scheme highlighted in this paper demonstrates a method of TMBL in Canada which utilizes both import and export programs to give the illusion of legitimate trade in electronics goods to mask the movement of illicit funds. (U)

¹ Trade Based Money Laundering. Financial Action Task Force. 2006-06-23. <http://www.fatf-gafi.org/media/fatf/documents/reports/Trade%20Based%20Money%20Laundering.pdf>

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6. Criminals involved in TBML use customs paperwork to justify the movement of ‘dirty’ money across borders (wire transfers, credit card payments, letters of credit, etc.). Importing-exporting provides a legitimate cause for money transfers. (U)
7. The Customs Tariff provides provisions for customs duty (and taxes) relief for goods exported from Canada and subsequently returned to Canada under tariff items 9813.00.00 and 9814.00.00 (see [Memorandum D8-2-27, Canadian Goods, Originating in Canada or Accounted for, Temporarily Exported and Returned](#), for further information). (U)

Suspected Scenario

1. Purchaser P from a foreign country needs to launder \$100,000 in proceeds of crime. Purchaser P collaborates with Entity X in Canada. (U)
2. Entity X receives a purchase order for 100 smart phones from Purchaser P and invoices Purchaser P with a \$100,000 bill of sale. (U)
3. Purchaser P wire-transfers \$100,000 to Entity X, quoting the invoice number in the remittance field of the wire. No red flags are noticed as the money transfer is for a legitimate sale/purchase, supported by an official invoice. (U)
4. Entity X receives the money and ships the goods to Purchaser P. The money has now been ‘cleaned’ by the “legitimate” sale transaction. (U)
5. Purchaser P, having collaborated since the beginning with Entity X, now sends the phones back to Canada, quoting a made up reason on the return documents (e.g.: not happy with the purchase, not what was ordered, unsatisfactory quality). (U)
6. Entity X initiates the re-importation clearance process, and as per D8-2-27 and the terms of tariff items 9813.00.00/9814.00.00, satisfies the processing Border Services Officer (BSO) or Senior Officer Trade Compliance (SOTC) that the goods are of Canadian origin and have been previously accounted for in Canada. This is usually achieved by providing BSOs with the original export documents, invoices, etc. Once satisfied, the goods are released. (U)
7. \$100,000 of ‘dirty’ money has just been successfully transferred from the foreign country to Canada without raising any suspicion. The whereabouts of the money connected to the “sale” is not questioned during the re-importation process as this is not a requirement under tariffs 9813.00.00/9814.00.00. (U)



Analysis

8. Staff encountering shipments meeting this criteria should consider the following:
(U)
9. Exportation and re-importation of the same high-value commodity is a red flag indicator for TBML. (U)
10. Personal electronics, such as smart phones, smart watches, and laptops are often the targeted type of goods.(U)
11. Small, high value electronics are generally not manufactured in Canada. Their importation under tariff items 9813.00.00 or 9814.00.00 should be a red flag. This is especially true for large and/or high value commercial shipments.(U)
12. It is not a sound business practice for Canadian businesses to sell these kinds of goods to non-domestic entities. The cost of having the goods imported (shipping charges, duties and taxes, etc.), combined with the cost of subsequent sale and export (further shipping charges and potential duties and taxes assessed at the destination) is too high. (U)
13. Since the goods that are not typically made in Canada, the practice of exporting them for sale and then re-importing them again makes little sense. Most buyers will purchase directly from the country of origin. (U)
14. The practice could also point to a “Phantom Shipment,” a known TBML modus operandi where the movement of goods occurs on paper only, providing alibi for any financial transactions completing in the background. In the eyes of TBML actors, the duties and taxes assessed are simply a cost of doing business (the actual profit from such TBML transactions is exponentially higher). (U)
15. Since TBML schemes employ a complicit buyer and seller, the risk for TBML increases in related party transactions, when the two parties of a trade transaction either have a linked corporate structure, or both ends of the trade transaction are controlled by the same entities. (U)



Implications for the Canada Border Services Agency (CBSA) and Canada

16. Individuals and commercial entities moving goods to and from Canada have an obligation under the *Customs Act* to provide true, accurate and complete information pertaining to those goods. (U)
17. The Customs Act empowers officers to examine any goods entering or leaving Canada, including asking clarifying questions with respect of those goods. (U)
18. When customs tariff 9813.00.00/9814.00.00 is claimed, goods that were exported from Canada and are returning to Canada must be described in sufficient detail on commercial documents to enable verification that the goods exported are the same goods now returning to Canada. As stated in D8-2-27, “[w]hen an importer accounts for goods under tariff item Nos. 9813.00.00 or 9814.00.00, the importer may be required to provide evidence of the purpose for the export relating to the goods (e.g.: shipping documents, evidence of the temporary exportation).”(U)
19. BSOs and SOTCs should compare the information related to the original export transaction (e.g.: description of goods, value, quantity, reasons for export, any available financial transaction data - i.e., was it a sale, how was the amount owed settled, who was the sender/receiver of funds, invoice details) to the information presented during the re-importation clearance request. (U)
20. For goods and/or invoices bearing serial numbers (SN), BSOs and SOTCs are encouraged to review those for any irregularities (e.g., fraudulent or fantasy SNs). Repetative SNs can also occur. (U)
21. Similarly, SOTCs conducting post-release verifications on transactions involving tariffs 9813.00.00/9814.00.00 should reviewing the transactions in order to detect non-compliance with customs legislation, but should also to be aware of the mentioned TBML red flags. (U)
22. BSOs and SOTCs should ask clarifying questions to paint a full picture about the particular import-export-re-import cycle (or a part of, as applicable). It is important to establish what has happened to the funds related to the transaction/sale. For example, has the (now) importer returned funds to the original buyer via a refund? If so, using what method (Electronic Funds Transfer, cheque, credit, etc.)? (U)



If Encountered

23. When TBML red flags are noticed, BSOs and SOTCs are highly encouraged to gather as much information as possible and submit it to Regional Intelligence via the Occurrence Reporting System (ORS) or contact the CoE at [\(CBSA.Trade_Fraud-Fraude_commerciale.ASFC@cbsa-asfc.gc.ca\)](mailto:CBSA.Trade_Fraud-Fraude_commerciale.ASFC@cbsa-asfc.gc.ca). (U)

Prepared by: E.S., Pacific Region, Intelligence Operations



Trade Fraud & Trade Based Money Laundering Centre of Expertise

Presentation to the Advisory Committee on Money
Laundering & Terrorist Financing

September 24, 2020

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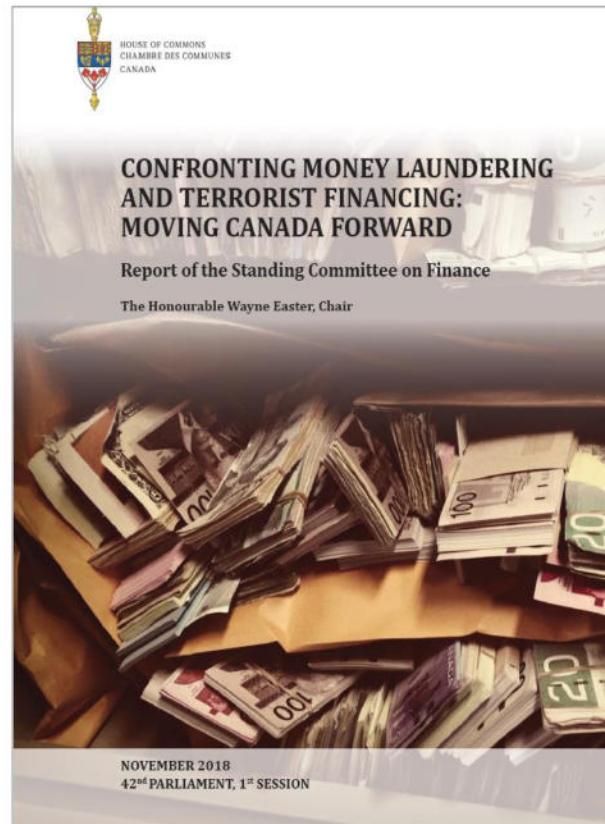
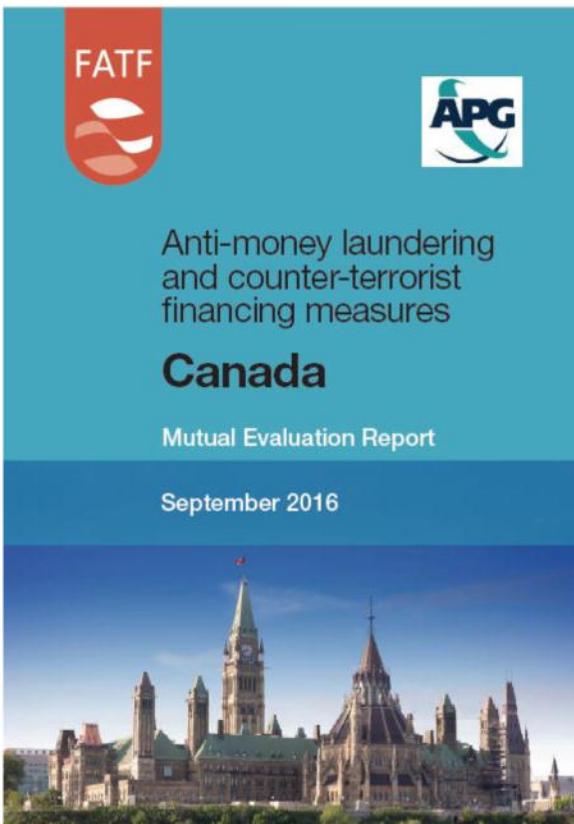


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Background





Creation of the Trade Fraud & Trade Based Money Laundering Centre of Expertise



Announced \$28M over four years (starting in 2020-21) and \$10.5M per year ongoing for the creation of a “Trade Fraud and Trade Based Money Laundering Centre of Expertise”



11 staff in 2020-21



10 staff in 2021-22

=21 staff (Ottawa, Pacific, Quebec and Greater Toronto Area)

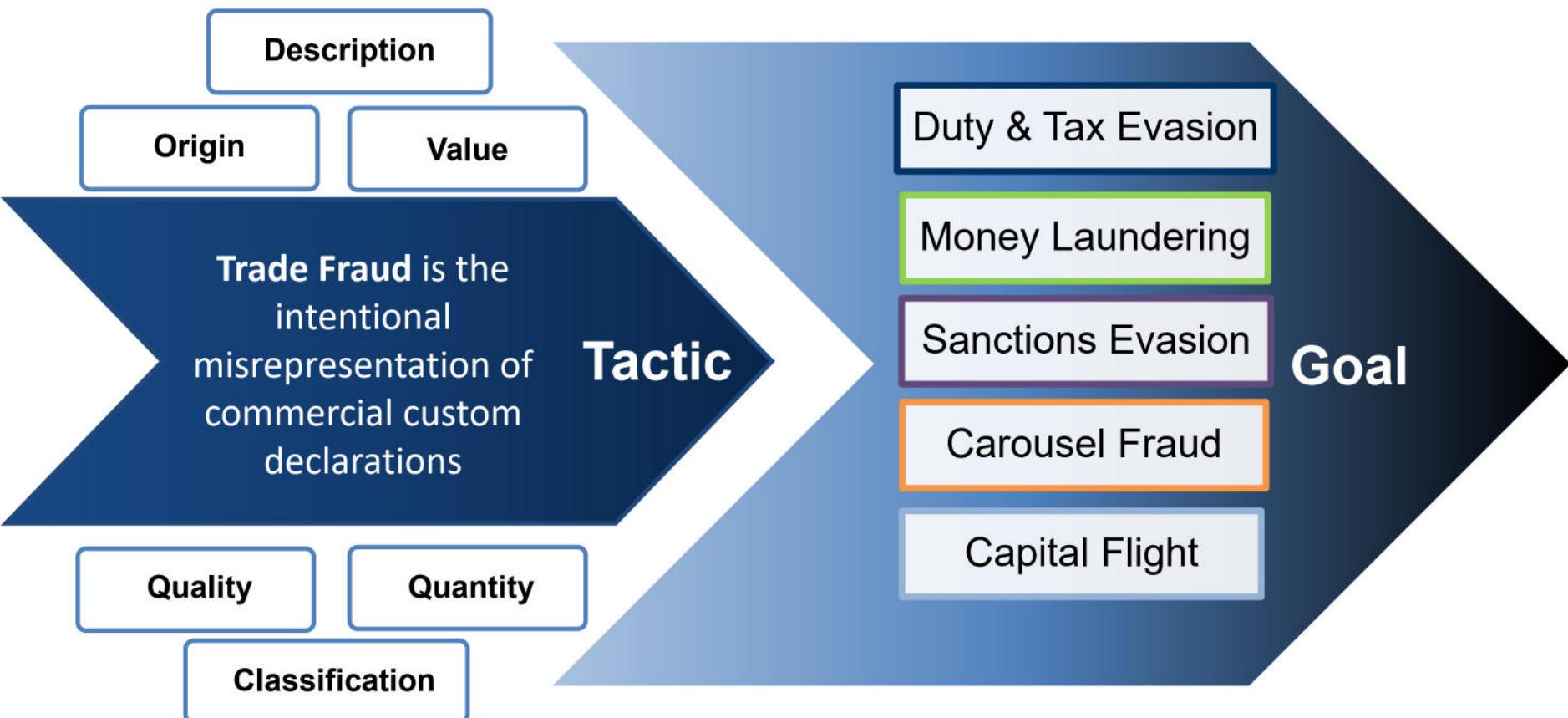


27 staff in 2022-23 

=48 staff total (National)



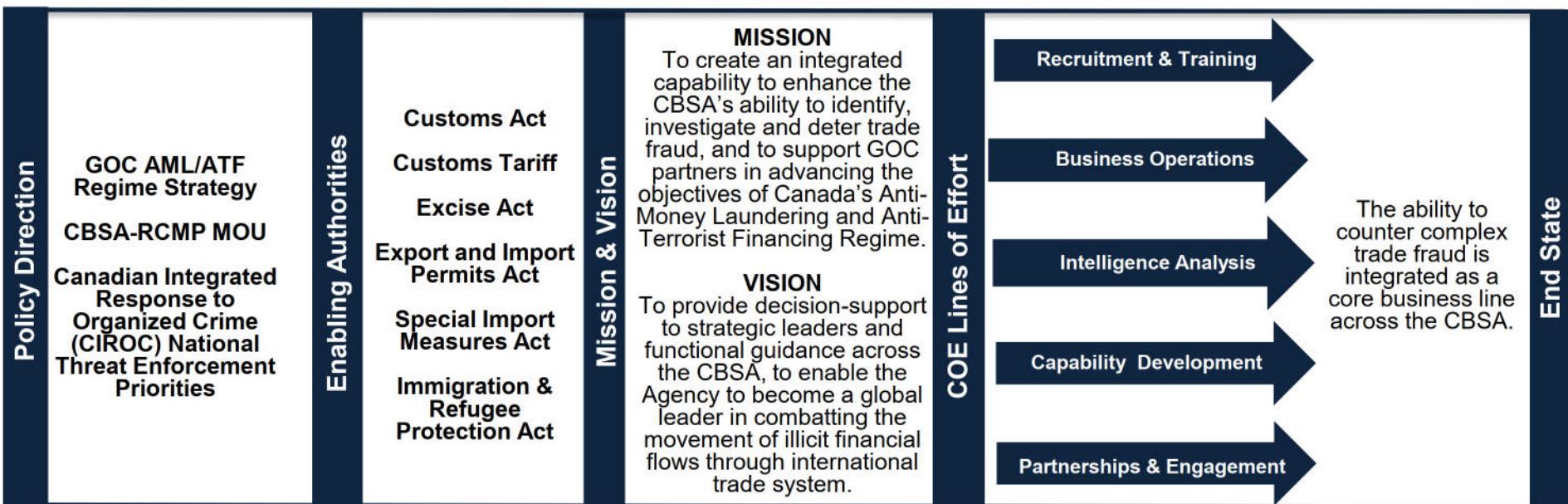
What are Trade Fraud and Trade Based Money Laundering?



Trade Based Money Laundering (TBML): Disguising and moving criminal proceeds through the use of trade transactions (engaging in trade fraud to launder money).



Trade Fraud & Trade Based Money Laundering Centre of Expertise - Operating Framework



Intelligence Analysis Focus in 2020-21

Customs

- Import/Export declarations

Intelligence

- **Financial Intelligence Units**

Non-Governmental

- FATF
- World Customs Organization
- Egmont Group
- Investigative Journalists databases

Trade Chain

- Bills of Lading
- Shipping Invoices

Tax

- Canadian legal and beneficial ownership
- Taxable income
- Business input costs



- Tactical, operational and strategic intelligence products
- Raise awareness to front line commercial and trade officers
- Build threat picture for intelligence analysts
- Inform senior decision-makers
- Referrals to CBSA Criminal Investigations & partners



Private Sector's Role



Financial Transactions and
Reports Analysis Centre
of Canada

Centre d'analyse des opérations
et déclarations financières
du Canada

Suspicious Transaction Report

If you have the capability to report electronically, DO NOT use this paper form.
Refer to FINTRAC's reporting guidance for your sector at: <http://www.fintrac-canada.gc.ca>.

Use this form if you are a reporting entity and you have reason to suspect that a financial transaction is related to money laundering or terrorist activity financing. For more information about who is considered a reporting entity and for instructions on how to complete this form, refer to FINTRAC's reporting guidance for your sector or call FINTRAC's toll-free enquiries line at 1-866-346-8722.

Send completed form by mail: FINTRAC, Section A, 234 Laurier Avenue West, 24th Floor, Ottawa, Ontario K1P 1H7
or send completed form by fax: 1-866-226-2346

Is this Report a correction to a Report previously submitted?

NO

YES

- Enter the original Report's Date and Time
- Date YEAR MONTH DAY HOUR MINUTE
- COMPLETE PART A – whether the information has changed or not
- Provide the new information ONLY for the affected fields in Part B through Part H
- If removing information from a field, strike a line through the field

REPORTING DATE YEAR MONTH DAY

TIME HOUR MINUTE

All fields of the report marked with an asterisk (*) must be completed. The ones that are also marked "If applicable" must be completed if they are applicable to you or the transaction being reported.
For all other fields, you have to make reasonable efforts to get the information.

PART A — Information about where the transaction took place

1. Reporting entity's identifier number* (if applicable)

2. Reporting entity full name*

Where did the transaction take place?

3. Street address*

4. City*

5. Province*

6. Postal code*

Who can FINTRAC contact about this report?

6A. Reporting entity report reference number

7. Contact – Surname*

8. Contact – Given name*

9. Contact – Initial/Other

10. Contact – Telephone number (with area code)*

10A. Contact – Telephone extension number

11. Which one of the following types of reporting entities best describes you?*

Accountant
 Bank
 British Columbia Notary
 Casino
 Co-op Credit Society
 Credit Union
 Crown Agent
(Self/Debtors Money Orders)

Dealer in Precious Metals and
Stones
 Life Insurance Broker or Agent
 Life Insurance Company
 Money Services Business

Provincial Savings Office
 Real Estate
 Securities Dealer
 Trust and/or Loan Company

→
Canada

Revised June 2017



Opportunities for Collaboration

OPERATIONAL ALERT

Professional money launderers are sophisticated actors who engage in large-scale money laundering on behalf of transnational organized crime groups such as drug cartels, motorcycle gangs and traditional organized crime organizations. Professional money launderers sell their services to these groups and are involved in the majority of sophisticated money laundering schemes; they are not members nor are they involved in the predicate offences that generate illicit proceeds. As such, they present unique identification challenges.

While professional money launderers may be accountants, bankers or lawyers, current financial intelligence suggests that they often are owners of, or associated with, trading companies or money-services businesses. Professional money launderers use their occupation and knowledge, as well as the infrastructure associated with their line of work and their networks, to facilitate money laundering, providing a veneer of legitimacy to criminals and criminal organizations.

This operational alert provides indicators for money laundering carried out through trade and money services businesses. Entities required to report to FINTRAC should use these indicators on their own and in combination to identify potential professional money laundering activities. Reporting entities should also use these indicators in conjunction with a risk-based approach and other money laundering indicators. Financial institutions are especially well positioned to recognize and report on suspicious financial transactions that may be connected to professional money laundering. FINTRAC uses these indicators, along with other sources of information, to assess reporting entities' compliance with their reporting obligations.

Trade-based money laundering

Professional money launderers use trade transactions to legitimize proceeds of crime and move them between jurisdictions and between currencies. FINTRAC has observed two main schemes of this type.

- Schemes involving falsified customs, shipping and trade finance documents, including the following:
 - Phantom shipments: Transferring funds to buy goods that are never shipped, received or documented.
 - Falsely described goods and services: Misrepresenting the quality, quantity, or type of goods or services traded.
 - Multiple invoicing: Issuing a single invoice but receiving multiple payments.
 - Over/under invoicing: Invoicing goods or services at a price above or below market value in order to move money or value from the exporter to the importer or vice-versa.
- The Black Market Peso Exchange, which typically works as follows:
 - Transnational organized crime groups, such as Colombian or Mexican drug cartels, place proceeds of crime into the U.S. financial system through structured cash deposits (deposits that are organized to avoid record-keeping or reporting requirements) of U.S. dollars.

NCA
National Crime Agency

SARs IN ACTION
Issue 6 - July 2020

@NCA_UKFIU
www.nca.gov.uk

UKFIU international work
pages 15-20

International FIU collaboration
pages 4-11

Global anti-corruption
page 8

Case studies and engagement news
page 3

Reporter perspectives
pages 12-14

A United Kingdom Financial Intelligence Unit (UKFIU) publication aimed at all stakeholders in the Suspicious Activity Reports (SARs) regime

Counter Illicit Financial Alliance



Questions

Contact Information:

CBSA.Trade_Fraud-Fraude_commerciale.ASFC@cbsa-asfc.gc.ca