

AML Work Stream 1

Data Collection and Sharing

British Columbia-Canada Working Group on the Real Estate Sector

Cullen Commission

March 11, 2021

Overview of presentation

Background information

1. Rationale and objectives
2. Work stream members
3. Methodology

Findings

1. Analysis of ML statistics
2. AML Data Framework

Summary of Outputs

1. Conclusions and Considerations
2. Recommendations

Background

Rationale and Objectives

BC-Canada Working Group on Real Estate

-  **Work Stream 1: Data Collection and Sharing** Co-leads: BC MoF and Statistics Canada
-  Work Stream 2: Regulations and Policy
-  Work Stream 3: Action, Coordination, and Enforcement

Federal Budget 2019

-  Statistics Canada was funded to undertake a study in co-operation with the BC Ministry of Finance to investigate data collection and data sharing options to support research, regulatory and analytical functions for the partners in this submission relating to tax compliance and anti-money laundering.
The data work stream would assess the feasibility of producing a data framework to facilitate information sharing among relevant government bodies to better support tax compliance and anti-money laundering, focusing on British Columbia.

Data collection and sharing work stream members

Bank of Canada

BC Financial
Services
Authority

BC Ministry of
Finance*

BC Real Estate
Council

BC Securities
Commission

Canada
Mortgage and
Housing
Corporation

Canada
Revenue
Agency

FINTRAC

Finance Canada

RCMP

Statistics
Canada*

*Work stream co-lead.

Methodology



Methodology

Gaining subject matter expertise

- Literature review on money laundering (ML) in real estate.
- Attendance at AML conferences to verify and expand understanding.
- Interviews with Canadian experts to verify and expand understanding.
- Ongoing meetings with WS members (group and individual)

Methodology

Analysis of Canadian ML statistics

- Collaboration with the Canadian Center for Justice and Community Safety Statistics at Statistics Canada
- Examination of statistics on police-reported ML incidents and linked court cases:
 - Prevalence of incidents over time,
 - Characteristics of involved suspects,
 - Charges laid and outcomes of linked court cases.

Methodology

Model development: AML data framework

- Creation of a conceptual model employing the theoretical understanding of the stages of money laundering to outline a data framework specific to real estate
- Translation of known ML typologies into a classification system to organize and assess data holdings
- Statistical infrastructure development: creation of collection templates

Methodology

Consultation with WS members

1. Collection of information on data holdings, coverage, and access restrictions using a survey template:
 - Information and metadata **only**; no data was exchanged in this feasibility assessment.
2. Data suitability meetings with Work Stream members:
 - Confirmation of information from data collection.
 - Collection of additional details on the quality and format of data points within data holdings.
3. Collection of feedback on typology mapping and report contents: descriptive narratives, findings and recommendations.
 - Bilateral meetings
 - WS meetings (teleconferences and in-person)

Methodology

AML data framework assessment

1. Assessment of the applicability/suitability of Work Stream data to the AML data framework
 - Organization and analysis of collected metadata drawing conclusion on the feasibility of constructing indicators for the detection of each known ML typology.
 - **Only** metadata was analyzed. No actual cases of ML detection was undertaken.
2. Analysis of the ability to detect known ML schemes within the AML data framework:
 - when identified data gaps are filled
 - under different hypothetical data sharing scenarios

Methodology

Review of best practices

- International AML best practices:
 - Consultation with the F3C.
 - Review of the data sharing and use practices in AML efforts in the Netherlands, UK, US, Australia and Canada.
- Data management best practices:
 - Review and summary of data practices conducive to successful use of data originating at multiple institutions.
 - Review of the necessity and proportionality requirements of data collection and analysis efforts using personal data.

Methodology

Data framework operationalization

- Theoretical options for future storage and sharing of data for the purposes of combatting ML in real estate.

Findings

Analysis of money laundering statistics

Goal

To examine the insights which could be gained through analysis of existing statistical sources related to money laundering.

Procedure

- Data on money laundering in Canada is currently collected through the Uniform Crime Reporting Survey collected by Statistics Canada.
- Court outcomes are similarly collected in the Integrated Criminal Courts Survey.
- An examination of reported ML incidents between 2009 and 2018 was conducted in collaboration with Canadian Centre for Justice and Community Safety Statistics.
- Incidents were linked to completed court cases where available to examine the extent to which incidents resulted in charges being laid, the nature of the charges laid, and the court outcomes for the accused.

Lessons

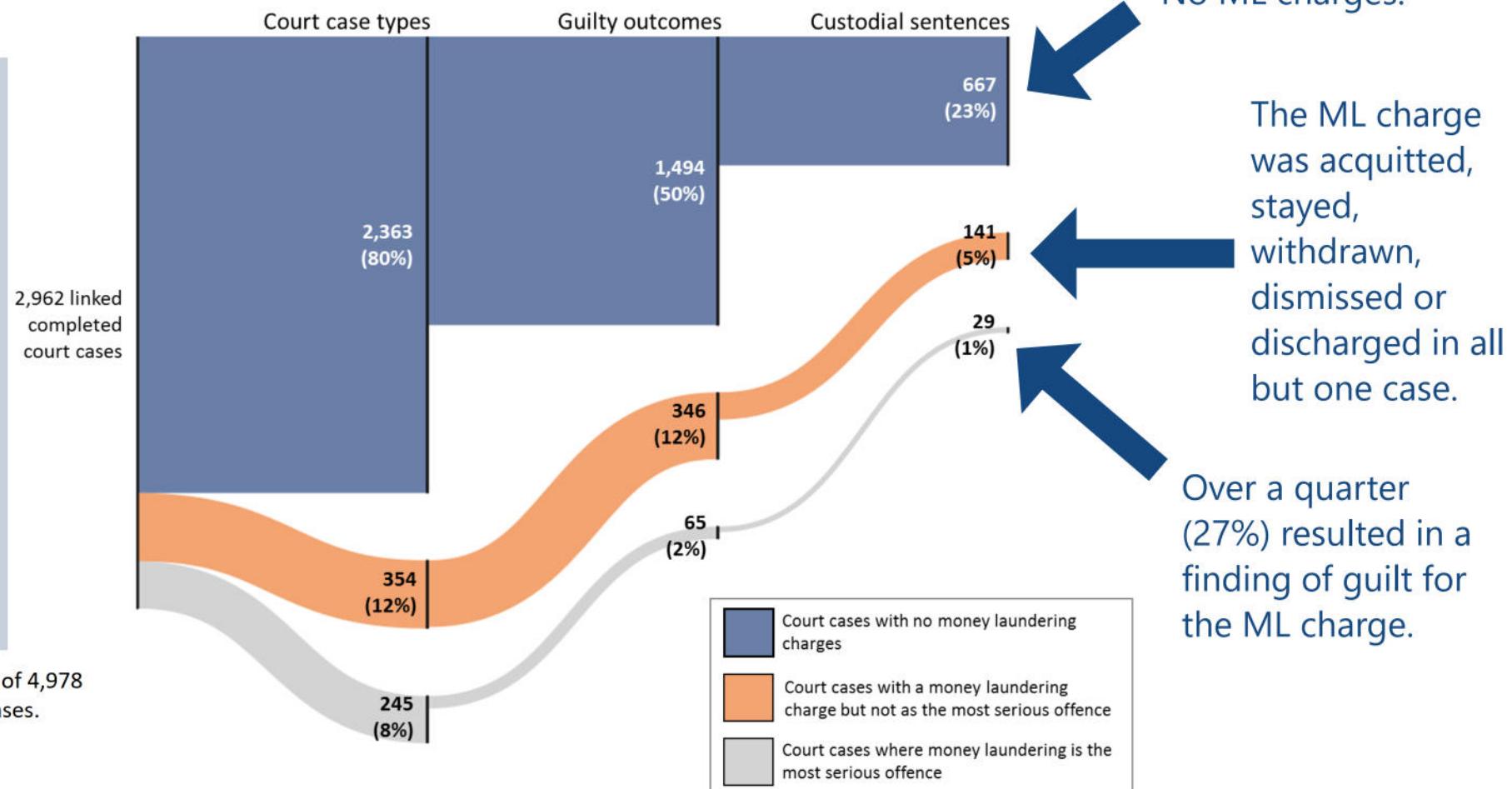
- These types of analyses can produce valuable outputs for Canada's AML efforts. For example, they can lead to indicators measuring the effectiveness of AML programs, processes, strategies and initiatives.
- These analyses are limited to ML incidents which are identified to the justice system. Furthermore, the analysis cannot account for the method of money laundering employed, so money laundering in real estate cannot be specifically addressed.

Analysis of money laundering statistics

Court outcomes for linked police-reported money laundering incidents

2,962 completed court cases were linked back to a police-reported ML incident¹:

- **80%** of cases had no ML charges (2,363 cases).
- **12%** of cases had an ML charge with more serious offences.
- **8%** of cases had ML as the most serious offence.



1. The linkage rate was 65% in which a total of 3,241 out of 4,978 accused individuals linked to 2,962 completed court cases.

AML data framework: Typology mapping

Goal

The identification and organization of data to enable the detection of ML in real estate.

Procedure

Collation of information from relevant sources on known typologies and their indicators. Primary sources included FINTRAC alerts, FATF reports, and academic literature on money laundering.

Outcome

Final typology framework had four hierarchical layers:

- Schemes – overall goal or strategy behind the money laundering technique employed
- Sub-schemes – the specific technique employed
- Indicators – capable of detecting the use of the sub-scheme
- Data points - required to construct each indicator

Typology mapping

Schemes (8)

- To obscure beneficial ownership
- To funnel cash/money through mortgages
- To use a single transaction to acquire real estate
- To flip houses to turn dirty funds into clean funds
- To hide capital in other jurisdictions
- To purchase property for criminal use
- To launder money through cancelled real estate transactions
- To acquire an income source and mix in dirty money

Sub-schemes (23)

Scheme: Obscuring beneficial ownership

- By using a shell corporation
- By having a nominee owner
- By having an unclear address

Indicators (106)

Sub-scheme: Using a shell corporation

- Owner is a company or other legal person
Owner is a numbered company
Owner company:
- Was just established
 - Is incorporated abroad
 - Is foreign-controlled
 - Has foreign address
 - Has public address
 - Is in a state with strong secrecy laws
 - Has no tax activity
 - Has no employees
 - Has no address
- Etc....

Data points (160)

Indicator: Owner company was just established

- Company owner date of registration
- Property sales, identifiers
- Property sale date

Gathering information on data point availability

- Meetings held with all Work Stream members to gather information about their data holdings.
- These documented:
 - Where each data point in the framework could be sourced.
 - Which data points are missing from any public institution.

Estimating the suitability of available data

Practical barriers to the utilization of each data point for AML depends on a number of factors. A second round of consultations with Work Stream members gathered information along five pertinent dimensions :

Accessibility

Is the data held within a proprietary software, scanned forms, etc.?

Strength of identifiable information

Are there unique identifiers, common identifiers, separated address fields, etc.?

Coverage of desired population

Are all populations of interest covered?

Fit between data dimension and analytical concept

Does the data measure the indicators adequately?

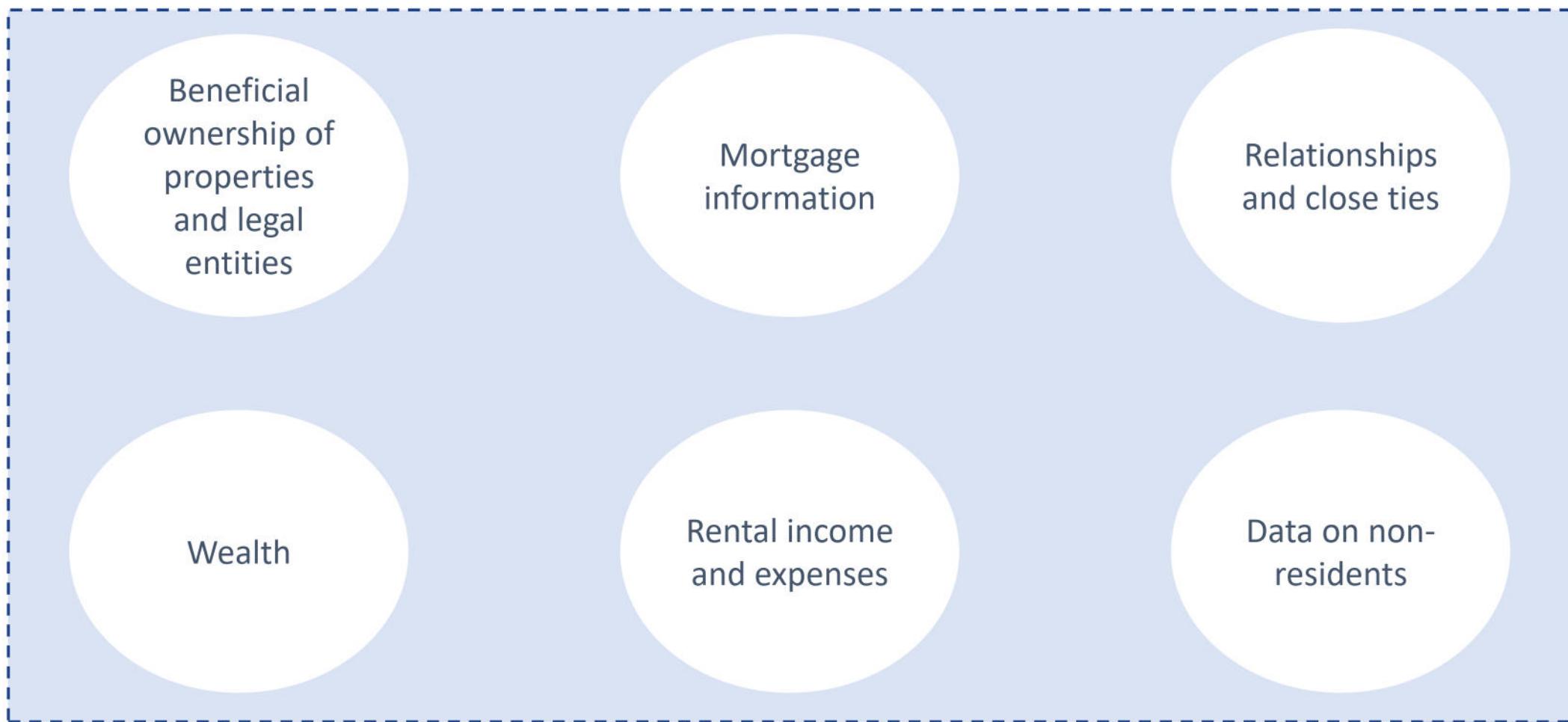
Accuracy of data recorded

Does the data capture what it is intended to capture?

The evaluation of WS data holdings for detecting ML and identification of data gaps was based on information provided by WS members, rather than direct access to the data

Identifying data gaps

After analyzing the information on Work Stream member's data holdings and data suitability in light of the data needs identified in the AML data framework, the following data gaps were identified as limitations to the full operationalization of the AML data framework



Data repository options

Assessing the effect of sharing data and filling data gaps

Hypothetical feasibility assessments under multiple potential data sharing and data availability arrangements were analyzed. These contextualize the effect of filling identified data gaps and/or altering data sharing arrangements.

Examining data model options

The pros and cons of three models for the organization and sharing of data were presented for consideration in future efforts at implementing enhanced ML data sharing:

- A **distributed model** akin to current practices
- A **centralized model** where required data points are housed in a single institution
- A **hybrid model** where data activities are coordinated with organizations designated to perform data custodian and data linkage and analysis functions.

Summary of Outputs

Conclusions and Considerations

- The report is a resource document for the AML Regime:
 - Focuses on the use of data to combat ML in RE markets in BC
 - How data can be used to enhance their work (opportunities and challenges)
- AML data framework
 - Conceptual core
 - Needs empirical testing
 - Serves “strategic” (policy, research) and “tactical” (enforcement, regulation)
- Privacy
- Non-prescriptive

R1

A hybrid data model, consisting of designated **co-ordinating** and (data) **custodial functions**, could support the development and sharing of high-quality data on BC real estate for either strategic and / or tactical purposes and merits further consideration.

Co-ordinating function:

- undertaken by an existing AML regime partner, a newly constituted unit or organization, or a consortium of organizations:

a. Analytical:

- i. the maintenance and development of the AML data framework;
- ii. data analysis and research including research to determine the most effective indicators for detecting money laundering;
- iii. the development and production of related AML metrics (Rec. 7).

b. Data co-ordination:

- i. setting data standards to facilitate AML data sharing and system inter-operability for authorized data users/suppliers (Rec. 5);
- ii. determining options for sourcing, linking and sharing AML framework data partners;
- iii. reducing and eliminating duplication of activities among hybrid model partners.

R1

(Data) Custodian function:

- applicable to regime or non-regime members
 - formal recognition of custodial roles to enable and/or foster custodial activities
- a. Data operations:**
- i. expanded collection or receipt of AML related data (Rec. 2);
 - ii. verification, processing, storage and organization of relevant data;
 - iii. sharing data or otherwise facilitating its access,
 - iv. creating and maintaining data base search functions;
- b. Privacy:**
- i. ensuring data is protected and used only for authorized users/uses.
 - ii. commercially exploitable data relevant to the AML data framework, such as mortgage terms, should only be accessible to authorized data users.

R2

Organizations holding AML data could further consider how their data holdings can be expanded or improved within the purview of their current operations with the view of better filling the AML data framework.

Additional data that would support the creation of the AML data framework:

- i. specific terms of financial contracts to acquire real estate, including lender(s), principal, interest rates, amortization periods;
- ii. updated financial records when real estate is re-refinanced or the terms are altered;
- iii. the names of all significant actors in real estate transactions (Rec 4). This could be facilitated if a unique identifier, such as a property ID, was required linking documents/transactors in a real estate transaction;
- iv. the retention of land title applications that are rejected or returned to the applicant due to possible irregularities.

R3

BC registries aimed at improving corporate transparency consider:

- a. including all Canadian (extra-provincial and federally incorporated) and foreign corporations registered in BC;
- b. adopting practices to regularly update and verify submissions including allowing public access to enable citizen participation to verify submissions;
- c. that registry information at a minimum be made available to law enforcement, tax and other competent authorities.

R4

Key data gaps on relationships should be filled through further work to establish the feasibility of linking (proxy) ownership and criminal networks or politically exposed persons. (Rec. 2) This could include:

- a. building and maintaining network information;
- b. leveraging information on co-accused in registered criminal cases and other public records to help detect cases of potential ML;
- c. leveraging information on PEPs and familial relations in public and commercial databases to help detect cases of potential ML.

R5

AML regime organizations should review their data stewardship and information management practices.

This includes maintaining data that is validated, and kept in machine-readable and searchable formats, along with up-to-date data documentation, adequate data retention and protection strategies. (Rec. 1)

R6

Comprehensive and objective indicators relevant to Canada be created for strategic uses to measure the effectiveness of AML programs, processes, strategies and initiatives related to real estate. These could include recording and tracking the following type of information (Rec. 1):

- a. regime resource inputs
- b. regime outputs
- c. AML outcomes
- d. comparative statistics on efforts and outcomes of AML efforts across provinces and internationally

R7

Further work to:

- a. adapt the AML framework and evaluate the potential to fill data gaps relating to
 - i. holdings by the private sector;
 - ii. rents received and paid;
 - iii. the feasibility of collecting information on the purpose of international financial transfers;
- b. develop models to measure ML:
 - i. in Canada and the flows of illicit funds to and from Canada
 - ii. the RCMP and/or police departments to consider estimating the value of proceeds of crime for all incidents as an input into measures of ML in Canada.
- c. investigate ways to collect beneficial ownership information concerning the private financing of real estate to address schemes involving loans among non-arms-length parties;
- d. investigate the application of new privacy enhancing technologies and artificial intelligence applications to identify and share relevant data and.

Thank-you

Haig McCarrell

Jean-Philippe Deschamps-Laporte

Ellen Bekkering

Statistics Canada