FSA0015.0001

AML Work Stream Update

Work Stream 3: Data Collection and Sharing

February 26, 2020

Overview of presentation

Background information

1. Rationale for work
2. Work stream members
3. Work stream activities to date

Collation / information gathering

4. Overview of Canadian money laundering crime statistics
5. Theoretical framework for ML in the real estate sector
6. Typologies and data for ML in the real estate sector
7. Work stream data holdings and availability

Background

Rationale for WS work and Treasury Board mandate

- Money laundering / tax evasion typologies
- Environmental scans
- Stakeholder consultations
- Data sharing models
- Options analysis
- Regulatory review

Outputs – Reports

- Preliminary report – March 2020
- Final report – January 2021

Data collection and sharing work stream members

- Bank of Canada
- BC Financial Services Authority
- BC Ministry of Finance
- BC Securities Commission
- Canada Mortgage and Housing Corporation
- Canada Revenue Agency
- FINTRAC
- Finance Canada
- RCMP
- Statistics Canada

Overview of activities to date

Work stream activities

- *January 2019 to present*
- Meetings to define context, mandate and work plan
- Biweekly coordination meetings with co-leads

Project governance

- *April 2019 to August 2019*
- TB submission
- Governance and advisory roles at Statistics Canada
- AML team creation and hiring

Baseline of data holdings

- *July 2019 to October 2019*
- Bilateral outreach with work stream members
- Work with CCJS for update 2009 work on ML in police and court data

Conceptual model of ML in real estate

- *July 2019 to October 2019*
- Literature review and overview of methods of ML through real estate

Inventory of ML typologies

- *July 2019 to November 2019*
- Literature review and resources from WS partners
- Collation of typologies, with descriptions of schemes and sub-schemes

Data mapping

- *July 2019 to December 2019*
- Mapping schemes to sub-schemes to indicators to data points
- Preliminary overview of data availability with WS holdings

Interim report draft

- *September 2019 to present*
- Includes results from CCJS, conceptual model, typology framework, and overview of data sources

Planning for consultations

- *September 2019 to present*
- Jurisdictional scan and research on ML experts for potential consultation
- Discussions with Finance and ACE team

Data baseline consultations with WS members

1. **Details on currently retained data**

Provide information about *each data source*, making copies of the table as necessary. If a data dictionary and record layout are available, the detailed record part can be omitted to the extent that the information is provided through these documents.

Data source name:	
Data source (i.e. lawyers, notaries, home owners, law enforcement, financial institution, administrative form – e.g., taxation form, etc.)	
Triggering event (ad hoc or periodic, real-estate transaction, financial transaction, etc.):	
Unit of observation (person, property, transaction, etc.):	
Frequency of updates/reporting:	
Historical coverage: (earliest available data)	
Is this data consolidated in an integrated data base for research/investigation purposes (Y/N – if yes please describe. The following questions refer to the integrated data base or if the source data is not integrated, please describe each data source	

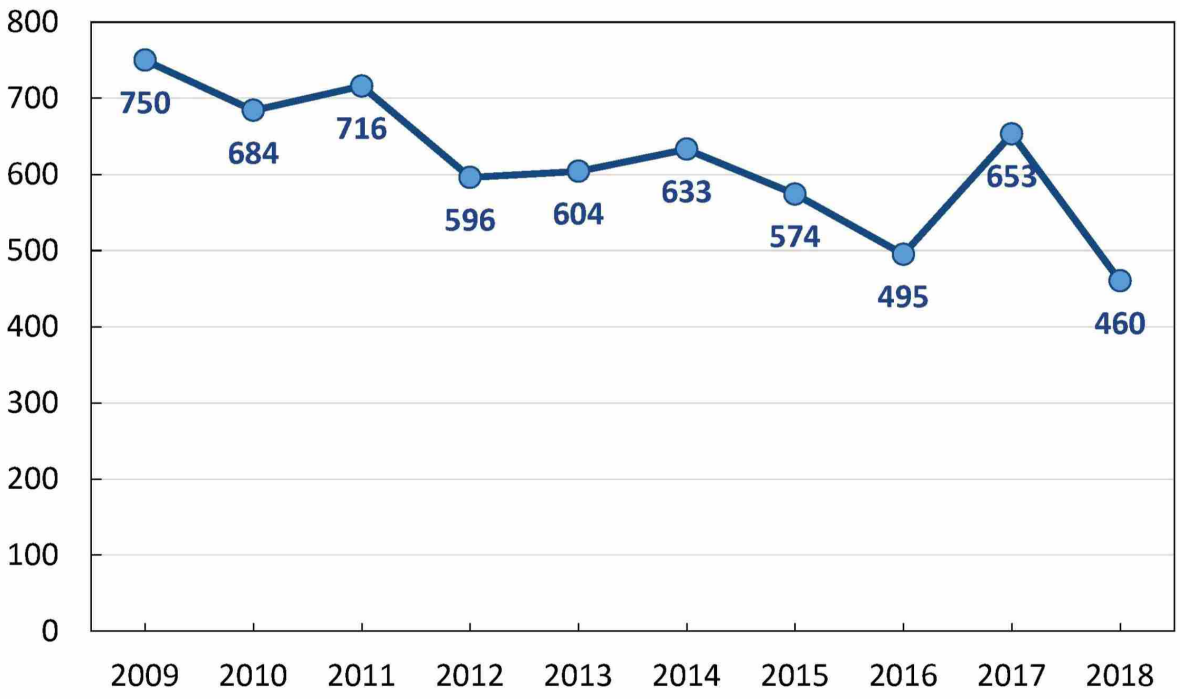
Records contain (please check):				
Data on owners:	**Data on properties:**	**Data on legal persons (for both owners and lenders):**	**Data on mortgages/loans:**	**Data on financial transactions (for both owners and lenders)**
☐ Name ☐ Address ☐ SIN ☐ Date of birth ☐ Country of birth ☐ Residency status ☐ Income ☐ Wealth ☐ Properties owned ☐ Mortgages currently held ☐ Mortgages previously held ☐ Marital status ☐ Relatives ☐ Health / institutional status ☐ Legal guardians (if any) ☐ Date of entry to Canada (if any) ☐ Immigration class (if any) ☐ Criminal record ☐ Other:	☐ Address ☐ Type ☐ Owner ☐ Beneficial owner ☐ Last sales date ☐ Last sales price ☐ Previous sales dates ☐ Previous sales prices ☐ Previous owners ☐ Vacancy status ☐ Owner occupancy ☐ Current mortgage ☐ Previous mortgages ☐ Number of units ☐ Rent charged in units ☐ Construction date ☐ Assessed values at times of sales ☐ Notaries on sales ☐ Broker of sales ☐ Other:	☐ Identifiers ☐ Shareholders ☐ Directors ☐ Address (incl. country) ☐ Date of birth/incorporation/ establishment ☐ Country of incorporation ☐ Current revenue ☐ Historic revenue ☐ Current assets ☐ Historic assets ☐ Number of employees ☐ Historic number of employees ☐ Regulators (for lenders) ☐ Ownership structure ☐ Beneficial owners ☐ Industry ☐ Other:	☐ Counterparties ☐ Size ☐ Term ☐ Rate of interest ☐ Adjustability of rate ☐ Down payment ☐ Mortgaged property ☐ Assessed value of mortgaged property ☐ Payment history (dates and amounts) ☐ Date signed ☐ Date closed (if any) ☐ Current outstanding amount ☐ Mortgage payment sources (cash, international transfer, domestic transfer) ☐ Date transferred ☐ First date more than 90 days in arrears ☐ Other:	☐ Large transaction sending countries ☐ Large transaction receiving countries ☐ Large transaction dates ☐ Large transaction amounts ☐ Suspicious Transaction Reports against ☐ Suspicious Transaction counterparties ☐ Other:

Overview of Canadian money laundering crime statistics

Money laundering (ML):

- Defined as "when an individual or group uses, transfers, sends, delivers, transports, transmits, alters, disposes of, or otherwise deals with any property or proceeds of any property that was obtained as a result of criminal activity"
  - Done with the intent to conceal or convert illegal assets into legitimate funds
- Also referred to as "proceeds of crime"
- Chargeable offence under sections 462.31 and 462.33 of the *Criminal Code of Canada*

There were 6,165 police-reported money laundering incidents in Canada in a decade



In 2018 there were **460** police-reported incidents of money laundering in Canada.

This was the lowest number of incidents reported per year in the past decade.

ML incidents consisted of **0.02%** of all police-reported incidents in 2018

Source: Statistics Canada, Canadian Centre for Justice and Community Safety Statistics, Uniform Crime Reporting Survey.

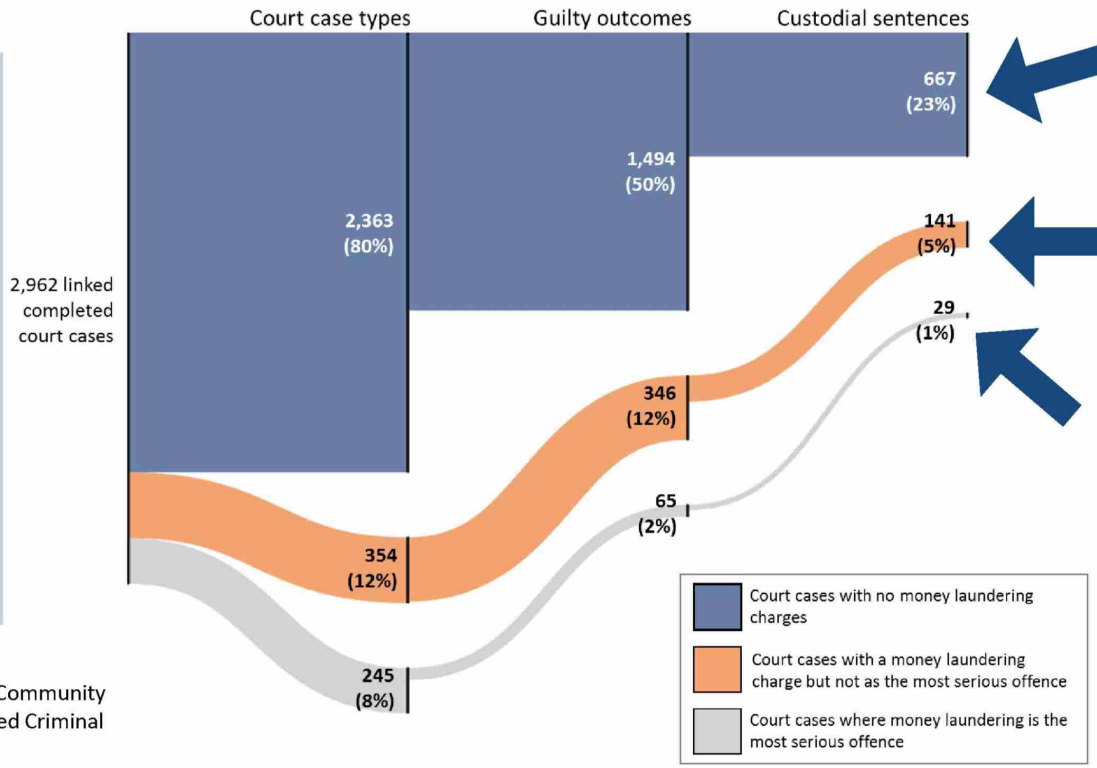
Linking police-reported ML incidents to court cases for further analysis

- The Integrated Criminal Courts Survey (ICCS) is an administrative survey that collects information on charges against accused persons
  - A charge refers to a formal accusation against an individual
  - A case is one or more charges against an accused which were processed by the court at the same time and received a final decision
- A case containing an ML charge can be segregated as
  - ML as the most serious offence in a case
  - ML as an associated offence in a case
- **2,962 court cases** were linked to a reported ML incident

Most police-reported ML incidents do not result in a ML charge or guilty outcome, but often result in other charges

Of the 2,962 court cases that were linked back to a police-reported ML incident:

- **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.



No ML charges

The ML charge was dropped in **all but one** case

Almost **three quarters** of cases with ML as the most serious offence resulted in a not guilty verdict

Source: Statistics Canada, Canadian Centre for Justice and Community Safety Statistics, Uniform Crime Reporting Survey, Integrated Criminal Courts Survey.

Theoretical framework of money laundering through real estate

Proceeds of crime

In Canada*

Prevalent sources include:

Fraud
- Capital markets
- Mass marketing
- Commercial trade

Drug trade

Tobacco trafficking

Corruption

Counterfeiting

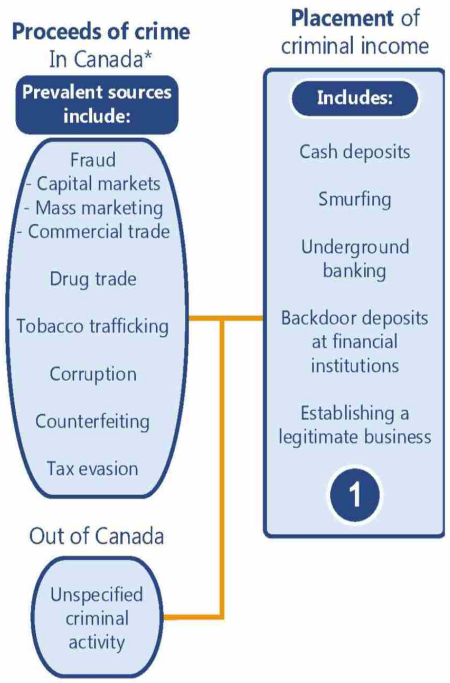
Tax evasion

Out of Canada

Unspecified criminal activity

*(IMF 2016). ** (van Koningsveld 2013)

How money is laundered in the real estate sector



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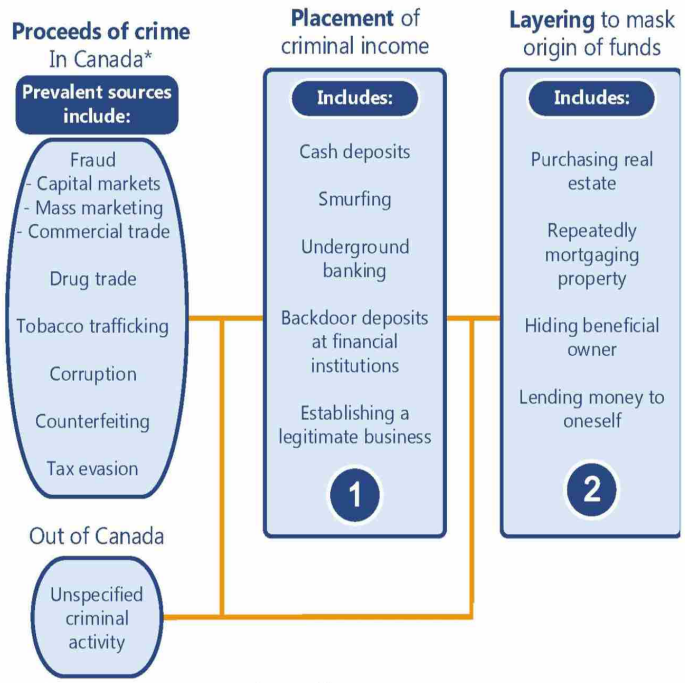
1 Placement of criminal income

- Place illegal money in a legitimate bank account
- Does not involve a real estate transaction

How money is laundered in the real estate sector



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1 Placement of criminal income

- Place illegal money in a legitimate bank account
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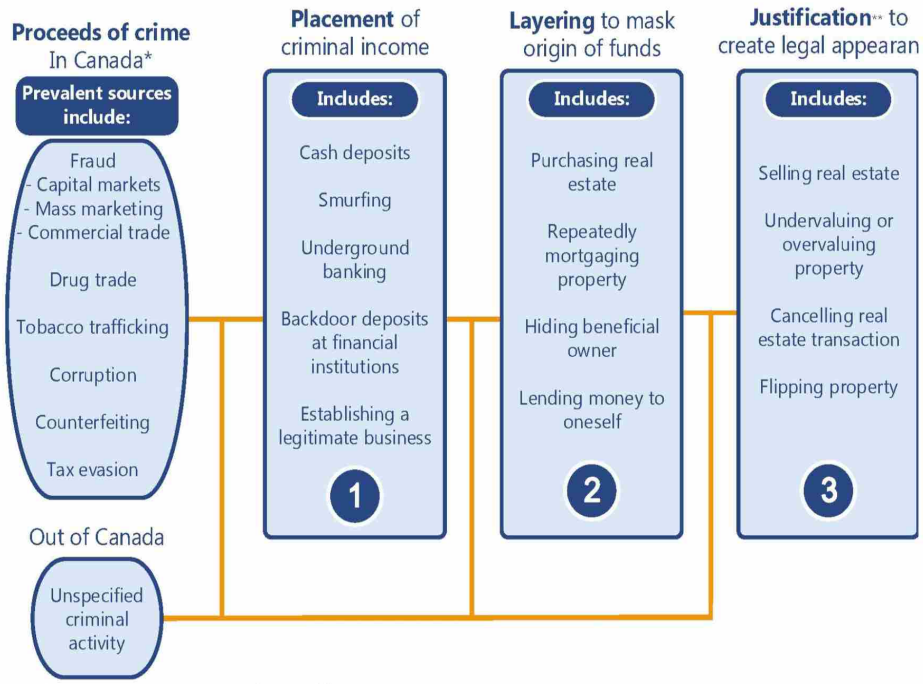
2 Layering to mask origin of funds

- Conceal origin of the funds by adding layers of financial maneuvers
- Purchase of real estate adds complex financial transactions

How money is laundered in the real estate sector



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3 Justification to create legal appearance

- Create the semblance of legally obtained proceeds
- Sale of property provides legitimate explanation for acquired funds

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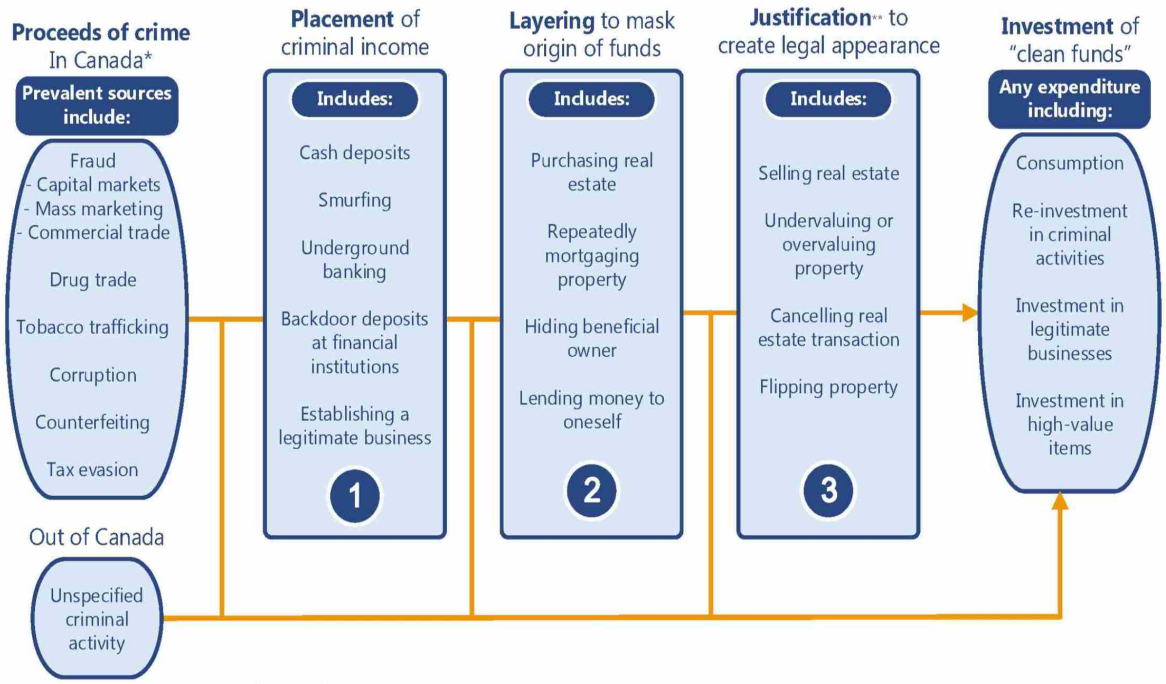

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Example of a money laundering scheme in real estate

Loan-back scheme

Step 1

Shell corporations are established to enable the loan-back scheme

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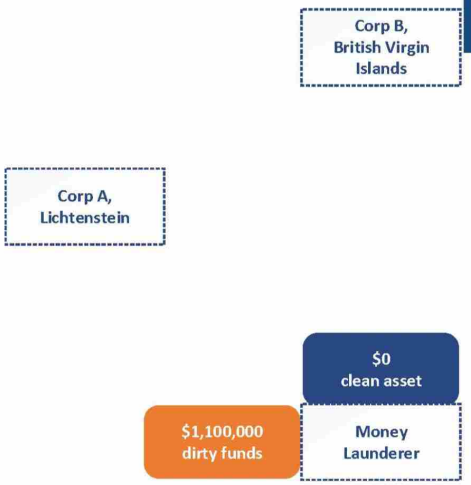

Example of a money laundering scheme in real estate

Loan-back scheme

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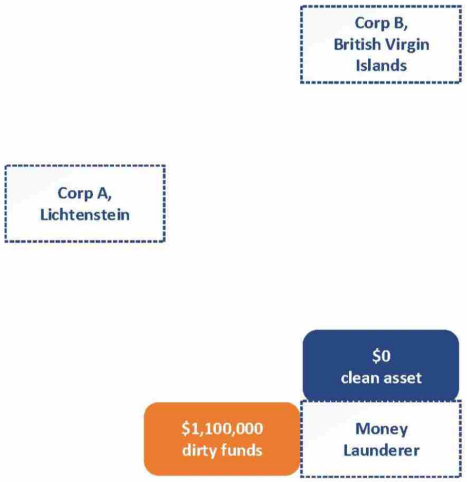
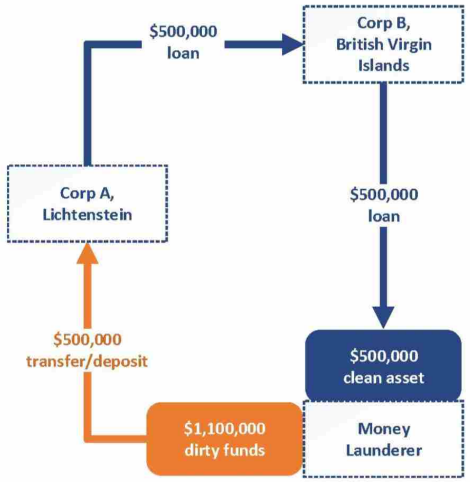


Step 2: Funds are placed in a shell corporation and lent back to the money launderer



Step 2

Funds are placed in a shell corporation and lent back to the money launderer

Example of a money laundering scheme in real estate

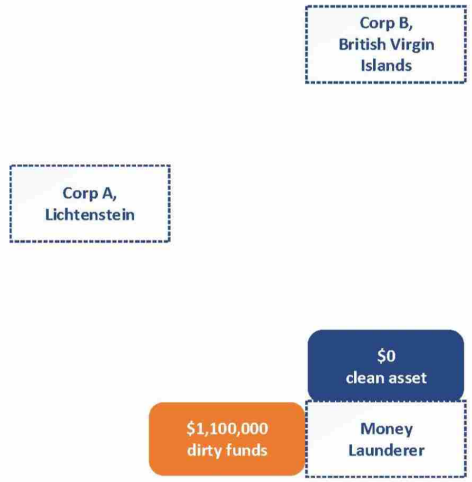
Loan-back scheme

Step 3

The loan is repaid with remaining proceeds of crime

Large amounts can be laundered with regular payments, without triggering automatic reporting requirements

Step 1: Shell corporations are established to enable the loan-back scheme



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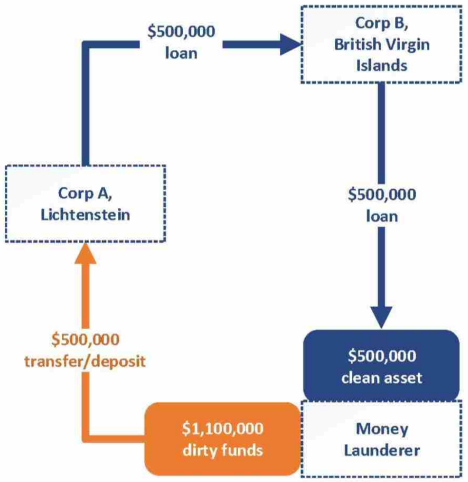

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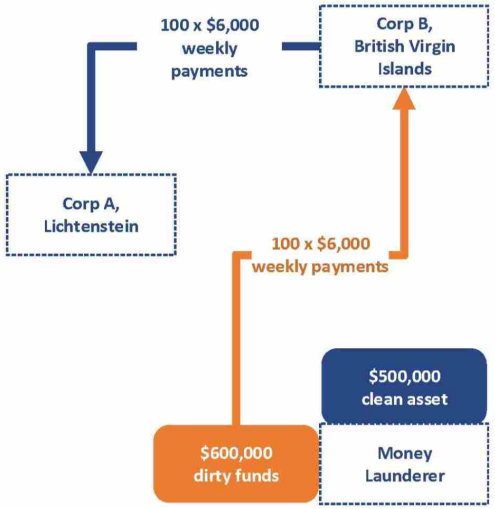

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Example of a money laundering scheme in real estate

Loan-back scheme

Step 4

Proceeds have been cleaned

A new loan can be used to launder additional proceeds

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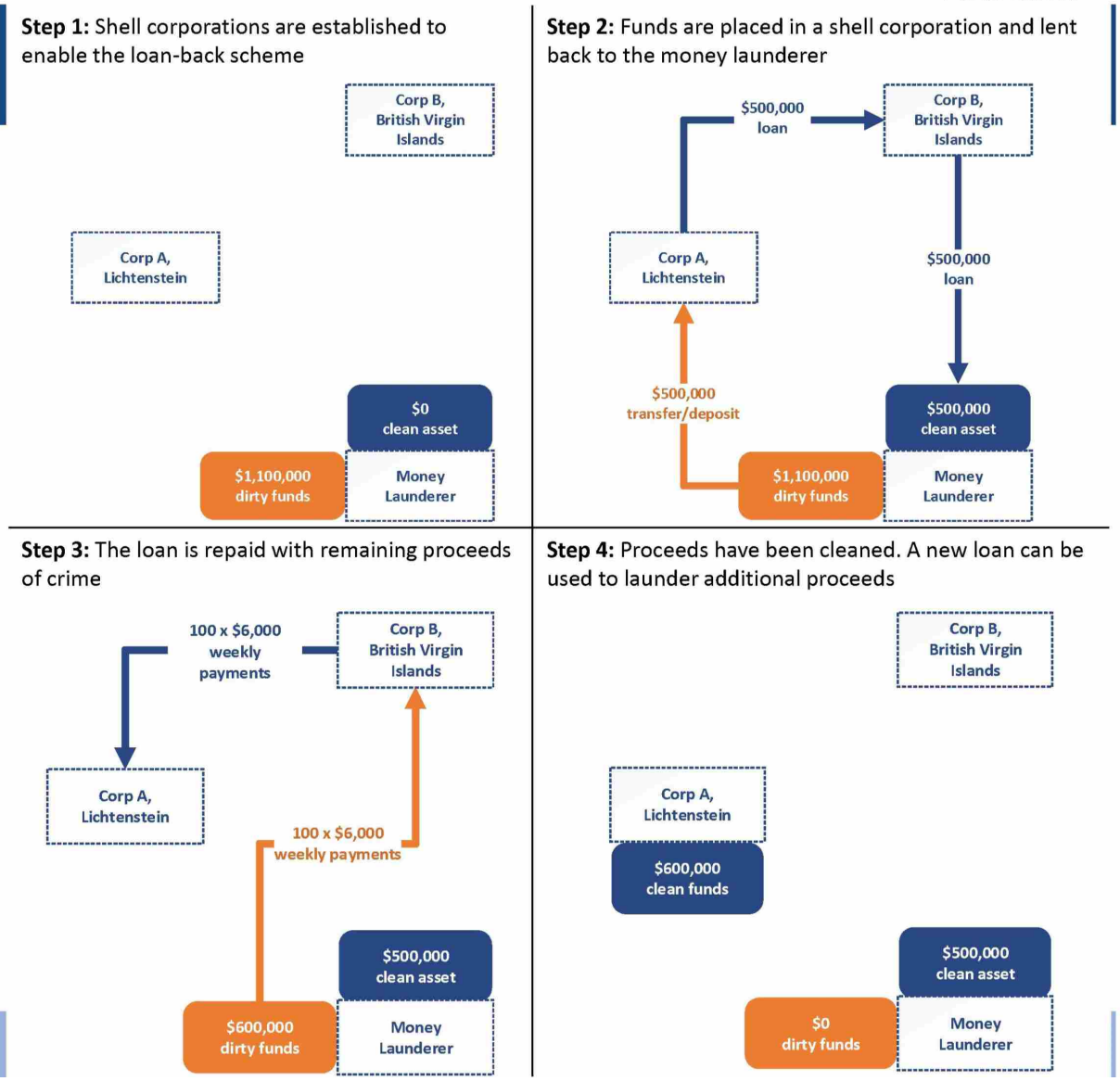

Data dimensions for detecting ML through real estate

Buyer characteristics

- Natural persons (e.g. income, citizenship)
- Legal persons (e.g. beneficial owner, country of registration)

Seller characteristics

- Same characteristics of interest as buyers

Financing characteristics

- Mortgage data (e.g. interest rate, lender information, term length)
- FINTRAC data (e.g. buyer with history of STR)

Property level data

- Information on property (e.g. location, sales dates, prices)
- Vacancy
- Repeated sales

Auxiliary information

- Relevant reference materials (e.g. list of regulated lenders, high-risk jurisdictions)

Typologies and data for money laundering in the real estate sector

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:

- 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
- Has no web presence/logo/phone number
- Has complex ownership structure
- Was just established
- Purchases residential property but its industry is not real estate
- Has few resources relative to property value
- Is a foundation, cultural or leisure association or non-profit entity

Data points for ML indicators come from a variety of sources

Indicators (106)

Sub-scheme: Using a shell corporation

Owner is a company or other legal person
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Owner company:

- **Is incorporated abroad**
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- Has complex ownership structure
- **Was just established**
- Purchases residential property but its industry is not real estate
- **Has few resources relative to property value**
- Is a foundation, cultural or leisure association or non-profit entity

Data points (149)

For selected indicators

Owner company is incorporated abroad

- Company owner country of registration

Owner company was just established

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

Owner company is in a state with strong secrecy laws

- Company owner address
- Company owner country of registration
- Ranking of countries by secrecy laws

Owner company has few resources relative to property value

- Company owner tax fillings / activity
- Company owner revenue
- Property sales, identifiers
- Property assessment value
- Property sales price

Owner company has no employees

- Company owner number of employees

Data collection and sharing work stream data holdings

Federal public institutions

Statistics Canada

- Canadian Housing Statistics Program
- Business Register
- Uniform Crime Reporting Survey
- Integrated Criminal Courts Survey

Limitations:

- Shall be used for statistical purposes only
- Absence of mortgage characteristics and financial information of individuals

FINTRAC

- Large Cash Transaction Reports
- Electronic Funds Transfer Reports
- Suspicious Transaction Reports
- Money Services Business registry

Limitations:

- Lawyers are not reporting entities
- Quality and effectiveness of data dependent upon reporting entities

Canada Revenue Agency

- Federal Tax Records
  - → T1: Taxes by individuals
  - → T2: Taxes by legal persons
  - → T3: Taxes by trustees of Trusts

Limitations:

- Lack of central registry for beneficial ownership

RCMP

- Access to many data sources on case-by-case basis

Limitations:

- No beneficial ownership registry
- Exemption of lawyers from reporting suspicious transactions

Bank of Canada

- Loan-level data on mortgages, household income and asset values

Limitation:

- Data without personal identifiers

*Limitations denote limitations for administrative data used for analysis in a data-driven AML model, and not limitations for the data in their regular use by the organizations

Data collection and sharing work stream data holdings

Provincial public institutions

BC Taxpayer Administration Compliance & Services

- Speculation and Vacancy Tax
- Property Transfer Tax
- Condo and Strata Assignment Integrity Register

Limitations:

- Newer initiatives

Land Title and Survey Authority of British Columbia

- Official records related to land titles and mortgages

Limitations:

- Much of the data is not stored or structured for systematic analysis

BC Beneficial Owner Registry

- Beneficial ownership declarations from non-natural person owners of property
- Housed at BC LTSA

Limitations:

- New initiative (2018)

BC Assessment

- Assessment of property values

Limitations:

- Property assessment values often differ from actual market value

BC Financial Services Authority

- Register of mortgage brokers.

Limitations:

- No way to link mortgage brokers to mortgages.
- No way to link mortgage brokers to clients.

*Limitations denote limitations for administrative data used for analysis in a data-driven AML model, and not limitations for the data in their regular use by the organizations

Some money laundering methods would be detectable with current WS data holdings

Scheme	Sub-schemes	Data availability
To obscure beneficial ownership	...by using a shell corporation.	Fair
	...by using a nominee owner.	Mostly unavailable
	...by having an unclear address.	Poor
To funnel cash/money through mortgages	...by acquiring many mortgages.	Mostly unavailable
	...by repeatedly mortgaging a property.	Mostly unavailable
	...by acquiring an outsized mortgage.	Mostly unavailable
	...by lending the money to oneself.	Mostly unavailable
	...by acquiring very valuable property with a large mortgage.	Poor
	...by taking over existing mortgages.	Mostly unavailable
	...by making mortgage payments in cash.	Mostly unavailable
To use a single transaction to acquire real estate	...by undervaluing and paying the difference under the table.	Fair
	...by buying the house outright with dirty or mixed funds.	Mostly unavailable
	...by defaulting on a loan to one-self or an associate.	Mostly unavailable
To flip houses to turn dirty funds into clean funds	...by buying a property and selling it as soon as possible.	Mostly unavailable
	...by conspiring with the owner and selling it back to them.	Poor
	...by renovating a property with cash/dirty funds.	Mostly unavailable
	...by purchasing a pre-construction condo and reselling it before the completion date.	Mostly unavailable
To hide capital in other jurisdictions	...by purchasing property in a country with strong property rights.	Fair
To purchase property for criminal use	...buy purchasing property in an area of interest.	Poor
To launder money through cancelled real estate transactions	...by paying a deposit, reneging, and receiving a clean refund.	Mostly unavailable
To acquire an income source and mix in dirty money	...by purchasing a cash business and padding business income.	Poor
	...by purchasing a money services business.	Fair
	...by purchasing rental property and padding rental income.	Mostly unavailable

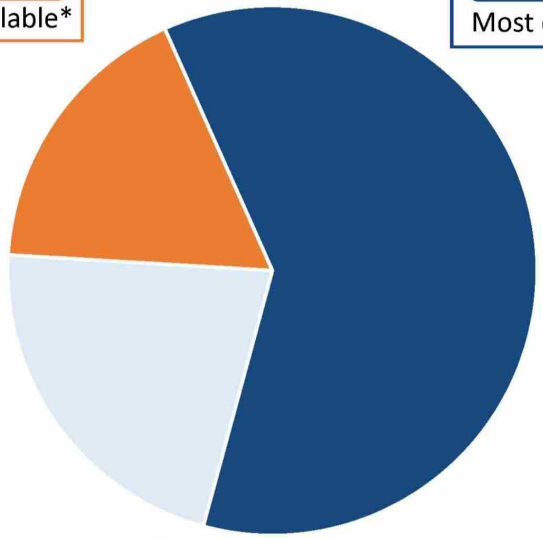
Four sub-schemes would be detectable with current data holdings of WS members

Fair – 4 sub-schemes

Most of the data is available*

Unfeasible – 14 sub-schemes

Most of the required data is unavailable



Poor – 5 sub-schemes

Part of the data are available, but significant parts missing for some related indicators

There are limitations for sub-schemes with a "fair" availability classification

Sub-scheme	Limitation
Using a shell corporation	Completeness, verification
Undervaluing and paying the difference under the table.	Employs assessment values as a proxy for market values
Purchasing property in a country with strong property rights	Owners may not be residents, limiting available data
Purchasing a money services business.	Marginally related to real estate

***Available:** The data exists in a structured format and is held by a work stream member

More money laundering schemes would be detectable by addressing key data limitations

Mortgages

- Needed for 8 sub-schemes, 34 indicators

Possible sources:
- BC LTSA
- Credit rating agencies

Beneficial ownership

- Needed for 2 sub-schemes, 6 indicators
- Increases validity of many other schemes

Possible sources:
- Tax records
- Beneficial ownership registries

Wealth

- Needed for 1 sub-scheme, 2 indicators
- For credulity of property ownership

Possible sources:
- Historical tax records
- Credit rating agencies (for liabilities)

Family relationships

- Needed for 3 sub-schemes, 7 indicators
- For detecting nominee owners

Possible sources:
- Historical tax records

Rental payments

- Needed for 2 sub-schemes, 3 indicators
- To be matched with rental incomes

Possible sources:
- New tax filing requirements

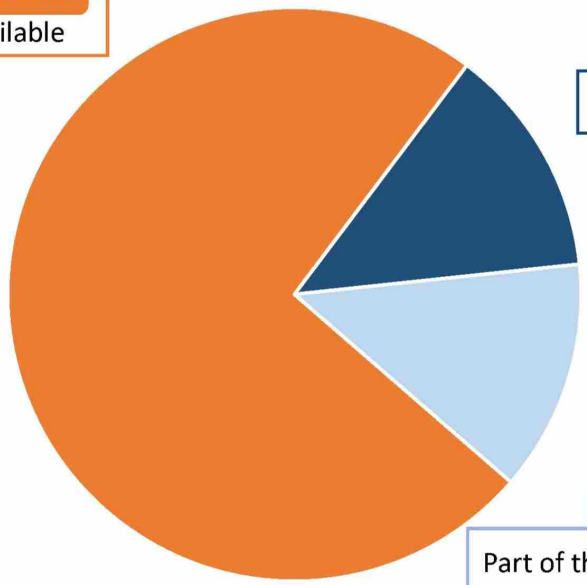
Property sales

- Needed for 13 sub-schemes, 24 indicators
- Current data limited in historical coverage

Possible sources:
- Multiple Listings Systems
- Land Title records

Sixteen sub-schemes would be detectable if key data limitations were addressed

Fair – 16 sub-schemes
Most of the data is available



Unfeasible – 3 sub-schemes
Most of the required data is unavailable

Poor – 3 sub-schemes
Part of the data are available, but significant parts missing for some related indicators

With shared and high-quality data for:

- Mortgages
- Beneficial ownership
- Wealth
- Family relationships
- Rental payments
- Property sales

As well as increased reliability and validity of owner characteristics

Questions?

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Director – Investment, Science and Technology Division, Economic Statistics Field
Statistics Canada / Government of Canada
Personal Information [redacted]

Ellen Bekkering
A/Chief - Property Measure and Analysis, Canadian Housing Statistics Program
Investment, Science and Technology Division, Economic Statistics Field
Statistics Canada / Government of Canada
Personal Information [redacted]