# Navigating the New Frontier: An Analysis of Bill C-2's Impact on Canada's AML Regime and a Framework for Risk Mitigation

### Executive Summary

This report provides an exhaustive analysis of the anti-money laundering (AML) and anti-terrorist financing (ATF) amendments introduced under Canada's Bill C-2, the *Strong Borders Act*. Tabled on June 3, 2025, this legislation represents the most significant and transformative overhaul of Canada's AML/ATF framework in a generation. The amendments, primarily located in Parts 10, 11, and 12 of the bill, signal a fundamental paradigm shift, moving the national regime from a historically process-oriented framework to one relentlessly focused on demonstrable effectiveness, backed by punitive, financially existential penalties.

The key changes are sweeping and systemic. They include a staggering increase in Administrative Monetary Penalties (AMPs), with maximums for very serious violations rising forty-fold to $20 million and a new cumulative cap tied to an entity's gross global revenue. The bill introduces a new, higher standard for compliance programs, which must now be proven to be "reasonably designed, risk-based and effective"—a subjective standard that grants the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) vast discretionary power.

Furthermore, the legislation mandates universal FINTRAC enrolment for all reporting entities, replaces the optional compliance agreement regime with a mandatory one, and introduces a new, high-penalty "compliance order" for failures to adhere to such agreements. It also enacts market-wide prohibitions on large cash transactions and third-party cash deposits, fundamentally altering how reporting entities and their clients handle physical currency. Finally, new provisions significantly expand the framework for public-to-private, private-to-private, and inter-agency information sharing, aiming to create a more integrated financial intelligence ecosystem.

The strategic implications are profound. AML compliance is elevated from a departmental function to a core enterprise risk requiring board-level oversight. The scale of the new penalties necessitates a complete re-evaluation of institutional risk appetite, compliance resourcing, and technology investment. The primary recommendation of this report is that all reporting entities must undertake an immediate and fundamental re-evaluation of their AML risk posture, compliance frameworks, and resource allocation. The cost of inaction has now been clearly defined by Parliament, and it is unacceptably high. This report provides a detailed analysis of these changes and a concrete framework for measuring and mitigating the associated risks in this new, high-stakes environment.

## I. Introduction: The Strong Borders Act and the New Paradigm for Canadian AML Compliance

On June 3, 2025, the Canadian federal government introduced Bill C-2, officially titled *An Act respecting certain measures relating to the security of the border between Canada and the United States and respecting other related security measures*, and commonly known as the *Strong Borders Act*. While the bill's title and broad scope encompass immigration reform, customs enforcement, and lawful access to data, its amendments to the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (PCMLTFA) represent a seismic shift for Canada's financial services industry and all other reporting entities. These changes are poised to fundamentally reshape the country's anti-money laundering and anti-terrorist financing (AML/ATF) regime.

### Contextualizing Bill C-2

The placement of these significant AML/ATF amendments within an omnibus national security bill is a deliberate and critical policy signal. The legislation's stated aims include strengthening border security, combatting transnational organized crime, and disrupting the flow of illicit substances like fentanyl alongside money laundering activities. This legislative packaging converges the fight against financial crime with Canada's core national security interests, moving AML/ATF compliance out of a purely financial regulatory silo and into the broader context of protecting the state from internal and external threats.

This reframing implies that regulatory bodies, particularly the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), will view AML failures not merely as administrative infractions but as potential facilitators of serious harm to Canadian society. For reporting entities, this elevates the importance of the AML function to the highest levels of corporate governance and enterprise risk management. The effectiveness of an AML program will likely be assessed not in isolation, but through the lens of its contribution to these overarching security objectives. Consequently, institutional risk assessments must evolve to consider nexuses to these wider threats, and board-level discussions must frame AML risk in these more severe terms.

The reforms are not occurring in a vacuum. They are widely understood to be a direct response to long-standing weaknesses identified in Canada's AML/ATF framework by international bodies, most notably the Financial Action Task Force (FATF). Canada is scheduled for its next FATF Mutual Evaluation in late 2025, and the sweeping changes in Bill C-2 are clearly intended to address previously identified deficiencies and improve the country's international standing ahead of this critical assessment. This international pressure is the primary catalyst for the legislative overhaul, aiming to align Canada more closely with global best practices and expectations.

The bill's focus on cross-border security and its introduction of a new "lawful access" regime also suggest a strategic alignment with the law enforcement and data-sharing posture of the United States. The bill's full title explicitly references "the security of the border between Canada and the United States". Provisions in Parts 14 and 15 of the bill expand warrantless access to subscriber data and create new obligations for electronic service providers to assist law enforcement. This has been linked by analysts to ongoing negotiations for a Canada-U.S. data-sharing agreement under the American *CLOUD Act*. The enhanced information-sharing provisions within the PCMLTFA amendments are part of this broader trend toward greater data mobility for law enforcement purposes. Reporting entities, particularly those with cross-border operations, must therefore anticipate an environment of increasing information requests, adding complexity to their privacy and data governance frameworks.

### The Paradigm Shift

The most crucial takeaway from Bill C-2 is that it marks a definitive paradigm shift for AML/ATF compliance in Canada. The previous regime, while complex, could often be navigated through a process-oriented, "check-the-box" approach. The new legislation dismantles this model. By introducing an enforceable standard of "effectiveness" and backing it with financially crippling penalties, Bill C-2 fundamentally alters how compliance will be measured, how non-compliance will be punished, and what will be expected of every reporting entity in the country. The era of AML as a back-office, process-driven function is over; the era of AML as a front-line, results-driven, and high-stakes strategic imperative has begun.

## II. A Forensic Analysis of Key Legislative Amendments to the PCMLTFA

The amendments to the PCMLTFA contained within Bill C-2 are extensive and multi-faceted. They can be understood across five core pillars: a new enforcement doctrine, a higher standard for compliance programs, expanded powers for FINTRAC, new market-wide prohibitions, and a new framework for information sharing.

### A. The New Enforcement Doctrine: Punitive and Dissuasive Sanctions

The most striking feature of Bill C-2 is its complete overhaul of the penalty structure, transforming it from a modest deterrent into a potentially existential threat for non-compliant entities.

**The 40-Fold Increase in AMPs:** The bill dramatically increases the maximum Administrative Monetary Penalties (AMPs) that FINTRAC can levy for violations of the PCMLTFA. The increases are applied across all three violation categories:

* **Minor violations** see their maximum penalty increase from $1,000 to **$40,000**.
* **Serious violations** increase from a maximum of $100,000 to **$4,000,000**.
* **Very serious violations** rise from a maximum of $500,000 to **$20,000,000** per violation.

This forty-fold escalation moves AMPs from being a manageable cost of doing business for large institutions to a significant financial event that demands executive attention.

**The Global Revenue Cap:** Perhaps the most significant change is the introduction of a new cumulative penalty cap for entities that is tied to worldwide revenue. For multiple violations, the total penalty will be capped at the greater of **$20,000,000 or 3% of the entity's gross global revenue** for the preceding financial year. This provision is applied on a group basis for affiliated entities, meaning the revenue of an entire global corporate group can be used for the calculation. For individuals, the cap is the greater of $4 million or 3% of their gross global income. This mechanism weaponizes penalties, transforming them into a business disruptor. For a large multinational bank with, for example, $60 billion in annual global revenue, 3% represents a potential penalty of $1.8 billion. A penalty of this magnitude is not a regulatory fine; it is a material event that impacts stock price, investor confidence, and capital adequacy. The calculus for risk appetite must therefore change, as the potential downside of a compliance failure now massively outweighs the potential upside of any single business line or client relationship.

**Reclassification of Violations:** The bill strategically reclassifies certain violations to ensure foundational weaknesses are subject to the highest penalties. Critically, failures related to the core components of a compliance program—such as failing to appoint a compliance officer, develop adequate written policies and procedures, or maintain an ongoing training program—are elevated from their current "serious" classification to "very serious". This directly exposes entities to the new $20 million maximum penalty for deficiencies in the very bedrock of their AML regime.

**Ability to Pay Clause:** While the bill does introduce a clause allowing FINTRAC to consider an entity's ability to pay when determining the final penalty amount, this should not be viewed as a safe harbor for large institutions. This provision is more likely intended as a safeguard to prevent the financial collapse of smaller reporting entities and to underscore the principle that AMPs are meant to encourage compliance, not to be purely punitive. For large, well-capitalized institutions, the expectation should be that penalties will be assessed at or near the new, much higher maximums, particularly when tied to global revenue.

### B. The "Effectiveness" Standard: From Process to Performance

Beyond penalties, the most profound change in the legislation is the shift in the core standard for an AML compliance program.

**Legislative Shift:** The current PCMLTFA requires a compliance program that is "intended to ensure compliance". Bill C-2 replaces this with a much higher and more subjective standard: the program must be **"reasonably designed, risk-based and effective"**.

**Codifying Best Practice:** This amendment takes what was previously FINTRAC guidance and international best practice, as promoted by FATF, and enshrines it in Canadian law. This makes "effectiveness" a legally enforceable standard. A failure to meet this new standard is itself classified as a "very serious" violation, subject to the highest tier of penalties.

**The Burden of Proof:** The operational impact of this change is immense. The onus will no longer be on an entity to simply show that it has policies, procedures, and training logs. The burden of proof will shift to demonstrating that these program elements *actually work* to mitigate risks and detect illicit activity. This creates a significant subjective enforcement risk. The term "effective" is not quantitatively defined in the legislation, granting FINTRAC examiners immense discretionary power. An entity could have a fully documented program, conduct regular training, and file all required reports, yet still be deemed "ineffective" based on a regulator's qualitative judgment of its outcomes. This necessitates a fundamental shift in focus from auditable documentation to data-driven evidence of the program's real-world impact.

### C. FINTRAC's Expanded Mandate: A More Intrusive Regulator

Bill C-2 equips FINTRAC with a suite of new powers to enhance its oversight and enforcement capabilities.

**Universal Enrolment:** The existing requirement for Money Services Businesses (MSBs) and certain other entities to register with FINTRAC is expanded. Bill C-2 will require **all** persons and entities subject to the PCMLTFA to enroll with FINTRAC. These entities will also be subject to periodic renewal of their enrolment and must notify FINTRAC of any changes to their information. This creates a comprehensive census of all reporting entities in Canada. The resulting public 'roll' of enrolled entities also increases transparency and introduces a new vector for reputational risk, as clients and partners can verify an entity's status.

**Mandatory Compliance Agreements:** The bill replaces the current optional compliance agreement regime with a mandatory one. Under the new system, any person or entity that receives an AMP for a prescribed violation *must* enter into a compliance agreement with FINTRAC to remedy the non-compliance. This removes the entity's discretion and formalizes the remediation process under direct regulatory supervision.

**The Compliance Order "Death Spiral":** A powerful new enforcement tool is created for situations where an entity refuses to enter into a mandatory compliance agreement or fails to comply with its terms. In such cases, the Director of FINTRAC is required to issue a **Compliance Order**. Contravening this order is designated as a new, distinct violation under the PCMLTFA. The penalty for violating a Compliance Order is exceptionally severe: the greater of **$30,000,000 or 3% of the entity's gross global revenue**. This creates a potent escalation path for non-compliance, where an initial violation can quickly spiral into a much larger financial and regulatory crisis.

### D. New Market-Wide Prohibitions: Reshaping Cash and Client Onboarding

The legislation introduces several new prohibitions that will have a direct and immediate impact on daily operations for many businesses.

**Ban on Large Cash Transactions:** A broad new offence is created, prohibiting any person or entity engaged in a business, profession, or the solicitation of charitable financial donations from accepting **$10,000 or more in cash** in a single transaction or in a series of related transactions. This prohibition applies widely across the Canadian economy, not just to traditional reporting entities. While certain financial institutions like banks and credit unions are exempt from this specific prohibition, it will significantly impact their commercial clients in cash-intensive industries such as real estate, automotive sales, and retail, who will no longer be able to accept large cash payments.

**Prohibition on Third-Party Cash Deposits:** In a related measure, deposit-taking institutions such as banks and credit unions will be explicitly prohibited from accepting a cash deposit into an account from any person who is not the holder of that account or is not formally authorized to give instructions on it. This measure is aimed squarely at disrupting a common money laundering technique where "smurfs" or couriers make multiple small cash deposits into accounts belonging to others.

**Prohibition on Anonymous Accounts:** The bill codifies and strengthens the ban on anonymity in the financial system. It will prohibit reporting entities from opening an account for any "anonymous client". This is defined to include not only situations where a client's identity cannot be verified according to PCMLTFA requirements, but also where the client's name is "obviously fictitious". This requires front-line staff to exercise a degree of judgment when onboarding new clients.

### E. A New Era of Information Sharing

Finally, Bill C-2 seeks to break down historical barriers to information sharing in the fight against financial crime.

**Public-to-Private Sharing:** The legislation creates a new pathway for law enforcement and other prescribed government agencies to proactively share an individual's personal information with a reporting entity, without that individual's knowledge or consent. This can be done if the agency believes the disclosure is for the purpose of detecting or deterring money laundering, terrorist financing, or sanctions evasion, and that seeking consent would compromise that effort. This allows authorities to "deputize" reporting entities by providing them with intelligence to monitor specific high-risk individuals.

**Inter-Agency Cooperation:** To improve coordination at the highest levels of the financial regulatory system, the Director of FINTRAC will be appointed as a member of the Financial Institutions Supervisory Committee (FISC). This will facilitate the direct exchange of information and intelligence between FINTRAC and the other members of the committee, which include the Office of the Superintendent of Financial Institutions (OSFI), the Bank of Canada, the Canada Deposit Insurance Corporation (CDIC), and the Deputy Minister of Finance.

**Private-to-Private Sharing:** In a significant development, the bill introduces provisions to permit reporting entities to share client information with *each other* for the purpose of detecting and deterring money laundering, terrorist financing, or sanctions evasion. This sharing must be conducted according to a formal Code of Practice that is approved by the Office of the Privacy Commissioner of Canada, ensuring that privacy safeguards are in place. This aims to replicate information-sharing partnerships seen in other jurisdictions to allow for a more holistic view of criminal networks that operate across multiple institutions.

| Table 1: The New Administrative Monetary Penalty (AMP) Framework |
| --- |
| **Violation Class** |
| **Minor** |
| **Serious** |
| **Very Serious**³ |
| **Compliance Order Violation** |

¹ *Based on the gross global revenue of the entity's global corporate group in the preceding financial year*. ² *Based on the individual's gross global income in the year prior to the penalty imposition*. ³ *Now includes failures related to core compliance program elements (e.g., appointing a compliance officer, developing policies, training, effectiveness reviews), which were previously classified as "Serious"*.

## III. The Operational and Strategic Impact on Reporting Entities

The legislative changes wrought by Bill C-2 will necessitate a profound transformation in both the day-to-day operations and the long-term strategy of all Canadian reporting entities. The impacts will be felt from the front-line teller to the corporate boardroom, demanding significant investment in technology, process redesign, and human capital.

### A. The Operational Overhaul: From Policy to Practice

The new prohibitions and requirements will trigger an immediate need for operational changes across affected organizations.

**Systems and Technology:** The new prohibitions on cash transactions over $10,000 for many businesses and on third-party cash deposits for financial institutions cannot be managed through manual processes alone. Reporting entities will need to undertake significant IT projects to update their point-of-sale, teller, and account opening systems to automatically block or flag these transactions. This will require substantial capital investment, project management resources, and rigorous testing to ensure compliance and minimize disruption to legitimate customer activity.

**Process Redesign:** Entirely new business processes must be designed, documented, and implemented. This includes creating a robust and auditable process for the new mandatory FINTRAC enrolment and its periodic renewal, which will involve gathering prescribed information and adhering to strict timelines. Furthermore, entities will need to establish formal intake and assessment procedures to handle the personal information they may now receive from law enforcement under the new public-to-private sharing provisions. This process must ensure the information is handled securely, used only for its intended purpose, and integrated into the entity's risk assessment and monitoring systems.

**Front-line Training:** The success of the new regime will depend heavily on the actions of front-line employees. A massive uplift in training will be required for all customer-facing staff. This training must go beyond annual refreshers and instill a deep understanding of the new rules regarding cash deposits, how to handle customer inquiries or pushback on these rules, and how to apply judgment in identifying potentially "fictitious" names during client onboarding. This is no longer a back-office compliance issue; it is a core operational competency for the front line.

**The Enrolment Bottleneck:** A significant logistical challenge looms with the universal enrolment requirement. With an estimated 30,000 businesses now needing to enroll with FINTRAC, a process that already takes months for a few thousand MSBs, a severe administrative backlog is anticipated. This could create significant delays for new businesses seeking to begin operations or for existing entities needing to renew their enrolment, potentially impacting business continuity and partner relationships.

### B. The Strategic Re-evaluation: Beyond the Compliance Department

The strategic implications of Bill C-2 are even more profound than the operational ones, forcing a re-evaluation of risk and governance at the highest levels.

**Board-Level Imperative:** The sheer scale of the new penalties, particularly the tie to global revenue, elevates AML compliance from a departmental concern to a core enterprise risk on par with credit, market, and operational risk. The board of directors can no longer delegate this issue; it requires their direct oversight and engagement. Boards will need to formally review and approve a revised institutional AML risk appetite that reflects the new high-stakes environment and ensure that the commensurate resources are allocated to manage that risk.

**Budgetary Shock:** AML compliance departments, historically viewed and funded as cost centers, will require a paradigm shift in their resourcing. To meet the new "effectiveness" standard, they will need substantially increased budgets to invest in advanced technology (such as artificial intelligence and machine learning for transaction monitoring), hire specialized personnel (including data scientists, forensic accountants, and behavioral analysts), and fund the intensive, ongoing training required across the organization.

**The Rise of the CCO:** The role of the Chief Compliance Officer (CCO) is significantly enhanced and carries greater personal and professional risk. The CCO will require a direct and unfiltered reporting line to the board or a board committee. They must be empowered with the authority to challenge and, if necessary, veto business decisions or client relationships that pose an unacceptable level of AML risk under the new framework.

### C. The Human Factor and a Culture of Effectiveness

Ultimately, technology and processes alone will be insufficient. The new regime demands a cultural transformation.

**Compliance Culture:** Organizations must evolve beyond fostering a "culture of compliance"—which focuses on knowing and following rules—to cultivating a "culture of effectiveness," which focuses on understanding and achieving desired outcomes. This requires a shift in mindset where every employee feels a sense of ownership for protecting the institution from financial crime. It involves incentivizing and rewarding staff not just for processing transactions quickly, but for actively identifying, escalating, and mitigating risk.

**Effectiveness Reviews:** The new legal requirement to institute and document a plan for an effectiveness-based review of the compliance program means that internal audit and quality assurance functions must be fundamentally retooled. Simple process audits that check for the existence of a policy or a completed training module are no longer sufficient. The new standard demands sophisticated testing of the program's actual ability to generate meaningful intelligence, detect unusual activity, and prevent illicit funds from flowing through the institution. This may involve implementing "red team" exercises to actively test vulnerabilities, conducting quantitative analysis of suspicious transaction report (STR) quality, and developing key performance indicators (KPIs) that measure outcomes, not just activities.

The combination of severe penalties and subjective standards may lead to an unintended consequence of "de-risking." Faced with the asymmetric risk of a multi-million-dollar penalty for servicing a high-risk sector, some reporting entities may choose to exit those lines of business entirely. This could involve terminating relationships with entire classes of customers, such as MSBs, cryptocurrency exchanges, new immigrants who lack standard identification, or other cash-intensive businesses. While a rational decision for an individual institution seeking to minimize its risk, this trend can have negative systemic consequences. It can lead to the financial exclusion of legitimate individuals and businesses, driving their financial activities into unregulated channels where they are even harder for law enforcement to monitor. This paradoxically could make the overall AML regime less effective by reducing the volume of transactions visible to FINTRAC.

Simultaneously, the complexity, subjectivity, and high stakes of the new regime will create a massive demand for external expertise. This will likely trigger a "gold rush" for specialized AML consulting firms, law firms, and regulatory technology ("RegTech") vendors. Both large and small reporting entities will seek external support to interpret the new rules, redesign their programs, conduct independent effectiveness reviews, and implement new technologies. The industry will see a boom in services designed to provide assurance to boards and executives that their programs can withstand the heightened scrutiny of a FINTRAC examination under this new paradigm.

## IV. Aligning with Global Standards: Bill C-2 and the Financial Action Task Force (FATF)

The sweeping reforms in Bill C-2 are not arbitrary; they are a direct and calculated effort to address long-standing criticisms of Canada's AML/ATF regime and align it with the global standards set by the Financial Action Task Force (FATF). Understanding this international context is crucial for appreciating the legislative intent and anticipating future regulatory direction.

### Canada's Report Card

Canada's last comprehensive FATF Mutual Evaluation was in 2016, with a follow-up report in 2021 that re-rated some areas of technical compliance. While the reports concluded that Canada has a strong regime in some respects, they also highlighted significant deficiencies. As of the 2021 follow-up, Canada remained only "partially compliant" or "non-compliant" with several key FATF Recommendations. These weaknesses, particularly concerning the effectiveness of sanctions and the transparency of legal entities, have been a source of international pressure and are a primary motivator for the *Strong Borders Act*, especially with a new mutual evaluation scheduled to begin in late 2025.

### Mapping C-2 to FATF Recommendations

Many of the key provisions in Bill C-2 can be mapped directly to specific FATF Recommendations that Canada was previously failing to fully implement.

* **Dissuasive Sanctions (FATF Recommendation 35):** FATF requires that countries have a range of sanctions that are "proportionate, effective and dissuasive." The 2016 evaluation was critical of Canada's penalty regime. The forty-fold increase in AMPs and the introduction of the 3% global revenue cap are a direct legislative response, designed to ensure that penalties are sufficiently severe to deter non-compliance by even the largest financial institutions.
* **Risk-Based Approach (FATF Recommendation 1):** The core principle of the FATF standards is the Risk-Based Approach (RBA), which requires financial institutions to identify, assess, and understand their money laundering and terrorist financing risks and apply AML/ATF measures commensurate with those risks. By codifying the requirement for compliance programs to be "risk-based and effective," Bill C-2 moves the RBA from the realm of regulatory guidance into black-letter law, addressing a key expectation of the FATF framework.
* **Information Sharing (FATF Recommendations 2 & 18):** FATF Recommendations emphasize the importance of national cooperation and information sharing, both among competent authorities (Rec. 2) and within financial groups (Rec. 18). The new provisions in Bill C-2 that establish the Director of FINTRAC on the FISC, enable public-to-private information sharing, and create a framework for private-to-private sharing are all designed to bolster Canada's performance against these standards.
* **Cash-Intensive Sectors (FATF Typologies):** While not tied to a single recommendation, FATF has long published research and typologies highlighting the vulnerabilities of cash-intensive businesses and the use of cash couriers. The new prohibitions on large cash acceptance and third-party cash deposits are targeted measures aimed at disrupting these well-known money laundering methods.

### The Missing Piece: Beneficial Ownership

Despite the comprehensive nature of the reforms in Bill C-2, there is a notable gap. The legislation does not appear to directly or fully address one of Canada's most significant and long-standing FATF deficiencies: the transparency of beneficial ownership of legal persons (corporations) and legal arrangements (trusts), covered by FATF Recommendations 24 and 25 respectively. These recommendations require countries to ensure that competent authorities have timely access to adequate, accurate, and up-to-date information on the true natural persons who ultimately own or control legal entities and arrangements. While Canada has made some progress with the introduction of a federal corporate beneficial ownership registry, the 2021 FATF follow-up still rated Canada as non-compliant on legal arrangements and only partially compliant on legal persons. The absence of further measures in Bill C-2 to address these gaps suggests that this remains an area of significant risk for Canada's upcoming evaluation and that further legislation on this front may be forthcoming.

| Table 2: Bill C-2's Alignment with Key FATF Recommendations |
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| **Bill C-2 Provision** |
| Drastic increase in AMPs and introduction of revenue-based cap |
| New standard for compliance programs to be "risk-based and effective" |
| Mandatory universal enrolment with FINTRAC |
| New framework for public-private and inter-agency information sharing |
| Prohibition on large cash transactions and third-party cash deposits |

## V. A Framework for Measuring and Mitigating Risk Exposure

Given the magnitude of the changes introduced by Bill C-2, reporting entities cannot afford a reactive or piecemeal approach to compliance. A structured, proactive, and enterprise-wide project is required to navigate the transition. The following three-phased framework provides an actionable roadmap for senior management to measure, manage, and mitigate the new spectrum of risks.

### Phase 1: Diagnostic and Gap Analysis (Immediate - 90 Days)

The first priority is to gain a clear and comprehensive understanding of the organization's current state of compliance relative to the new legal requirements.

* **Action:** Immediately commission a comprehensive, line-by-line gap analysis of the existing AML/ATF compliance program against every new requirement and prohibition in Bill C-2. This analysis should be conducted by a multi-disciplinary team including compliance, legal, risk, IT, and operations, potentially with oversight from internal audit or an independent third party.
* **Methodology:** The core of this phase is the development and execution of a detailed checklist (see Table 3). This tool maps each specific legislative clause to the corresponding internal policies, procedures, systems, controls, and training materials. Each item on the checklist should be assigned a RAG status (Red: Major gap, non-existent or wholly inadequate control; Amber: Partial gap, control exists but requires significant enhancement; Green: No gap, control is adequate). This prioritization mechanism is critical for focusing remediation efforts.
* **Output:** The phase concludes with the delivery of a formal Gap Analysis Report to the Board Risk Committee and senior management. This report must clearly articulate all identified gaps, provide specific, actionable recommendations for remediation for each gap, and include preliminary estimates of the resources (personnel, budget, time) required for the remediation effort.

### Phase 2: Dynamic Risk Assessment & Financial Exposure Modeling (90-180 Days)

With the gaps identified, the organization must overhaul its enterprise-wide AML risk assessment to reflect the new realities of the enforcement landscape.

* **Action:** Redesign and execute a new enterprise-wide AML risk assessment that fully incorporates the new legal standards and potential penalties.
* **Methodology:**
  1. **Update Risk Factors:** The existing risk assessment methodology must be updated. New specific risk factors must be added to account for the prohibitions on third-party cash deposits and large cash transactions by clients. Crucially, a new qualitative risk factor must be introduced to assess the "effectiveness" of various program components, moving beyond a simple assessment of their existence.
  2. **Model Financial Exposure:** A quantitative financial model must be developed to estimate the potential AMP exposure under various failure scenarios. This is a critical step to translate regulatory risk into financial terms that resonate with executive management and the board. The model must use the new penalty structure, including the **3% of gross global revenue** figure, to calculate a "Maximum Foreseeable Loss" or "Penalty at Risk" for AML non-compliance. This metric should be treated with the same analytical rigor as those used for credit, market, or operational risk.
  3. **Scenario Analysis and Stress Testing:** The model should be used to run a series of plausible failure scenarios. Examples could include: "a systemic failure in suspicious transaction reporting for a specific product line," "a widespread breach of the third-party cash deposit rule across a geographic region," or "a FINTRAC examination deems the corporate training program 'ineffective'." The output will quantify the potential financial impact of these events, providing a powerful tool for prioritizing control enhancements and allocating resources.

### Phase 3: Governance and Control Uplift (Ongoing)

This is the implementation phase, where the findings from the first two phases are translated into tangible changes in the organization's governance, technology, and control environment.

* **Action:** Execute a formal, project-managed plan to close all identified gaps and implement the necessary controls to mitigate the risks identified in the new assessment.
* **Methodology:**
  1. **Governance and Charters:** The charters and mandates for the Board of Directors, the Audit Committee, and the Risk Committee must be formally updated. They should now include explicit responsibility for overseeing the *effectiveness* of the AML/ATF program and for reviewing the institution's exposure to the new penalty regime.
  2. **Technology Roadmap:** A multi-year technology and data strategy must be developed and funded. This roadmap should prioritize investments in automating controls (e.g., hard stops for prohibited transactions), enhancing transaction monitoring analytics to better detect complex laundering schemes, and developing the data infrastructure necessary to generate metrics and evidence to *prove* program effectiveness to regulators.
  3. **Internal Audit & Testing Redesign:** The annual internal audit plan for AML must be redesigned. The focus must shift from process-based audits (e.g., "Did everyone complete the training?") to effectiveness-based testing (e.g., "Can our trained employees identify and report this complex suspicious activity?"). This may involve covert testing, "red team" exercises designed to circumvent controls, and independent validation of the models used for transaction monitoring.
  4. **Policy & Procedure Overhaul:** The core AML/ATF Policy and all related operational procedures must be rewritten to reflect the new legal language, prohibitions, and the overarching standard of effectiveness. These documents must be clear, practical, and effectively communicated to all relevant employees.

| Table 3: Bill C-2 Compliance and Action Checklist |
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| **Legislative Requirement** |
| **Universal FINTRAC Enrolment** |
| **"Effectiveness" Standard** |
| **Increased AMPs & Global Revenue Cap** |
| **Ban on Third-Party Cash Deposits** |
| **Ban on Anonymous / Fictitious Accounts** |
| **Mandatory Compliance Agreements & Orders** |
| **New Information Sharing Provisions** |

## VI. Conclusion and Strategic Outlook

Bill C-2, the *Strong Borders Act*, is unequivocally a watershed moment for anti-money laundering and anti-terrorist financing compliance in Canada. It fundamentally reconstructs the nation's AML/ATF regime, re-calibrating it from a framework focused on process and procedure to a system demanding demonstrable effectiveness and backed by the most severe penalty structure in Canadian financial regulatory history. The legislation's core tenets—punitive sanctions, a legally enforceable effectiveness standard, expanded regulatory powers, and market-wide prohibitions—leave no room for ambiguity. The era of treating AML compliance as a routine, check-the-box exercise is over.

The implications for reporting entities are stark and immediate. Compliance is no longer simply a matter of following a set of rules; it is now a matter of producing effective, measurable, and auditable results in the national and global fight against financial crime. The cost of failure has been explicitly defined in terms of multi-million-dollar fines and percentages of global revenue, transforming AML risk from a manageable operational issue into a primary strategic concern that demands the attention of the C-suite and the board of directors.

The path forward requires more than incremental adjustments. It demands a fundamental re-evaluation of institutional risk appetite, a significant and sustained investment in technology and specialized talent, and a deep-seated cultural shift towards proactive risk management. The reporting entities that will thrive in this new environment will be those that move beyond a defensive, compliance-focused posture. They will be the institutions that embrace the spirit of the law, not just its letter. They will invest in the people, processes, and technology needed to become truly effective partners in safeguarding the integrity of the Canadian and global financial systems. The federal government has sent a clear and powerful message with Bill C-2: the expectations have been raised, and the consequences for failing to meet them are now monumental.

#### Works cited

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