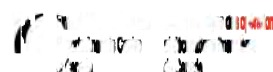


Feedback on Suspicious Transaction Reporting

Banking Sector



FEEDBACK ON SUSPICIOUS TRANSACTION REPORTING: BANKING SECTOR

1. Introduction

This report has been prepared for the Canadian banking sector with the objective to provide feedback on financial transaction reports that have been submitted to FINTRAC. The Centre regularly provides feedback on issues relating to this reporting, including timeliness, volume, quality of reports and areas for improvement. This document provides additional feedback to banks on FINTRAC's use of the transaction reports they have provided, with particular emphasis on suspicious transaction reports (STRs). Guidance and sanitized samples of completed STRs are also provided. Additional guidance on suspicious transaction reporting can be found in *Guideline 2: Suspicious Transactions* from the Guidelines page of FINTRAC's Web site (www.fintrac.gc.ca).

1.1 Reporting volumes

The *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (PCMLTFA) and its Regulations oblige the following persons and entities (known as "reporting entities") to make reports to FINTRAC:

- financial entities (includes, banks, credit unions, trust and loan companies, etc.);
- life insurance companies, brokers or agents;
- securities dealers;
- persons engaged in the business of foreign exchange dealing and money services businesses;
- agents of the Crown that sell money orders;
- accountants and accounting firms; real estate brokers and sales representatives; and
- casinos.

In addition to meeting client identification and record keeping requirements, these reporting entities must provide the following information to FINTRAC:

- suspicious transaction reports (STRs) related either to money laundering or to terrorist activity financing regardless of dollar value;
- international electronic funds transfer reports (EFTRs) involving \$10,000 or more;
- large cash transaction reports (LCTRs) of \$10,000 or over; and
- terrorist property reports (TPRs) that report the existence of terrorist property in their possession or control, or information about a transaction or proposed transaction in respect of such property.

FINTRAC received over 14 million reports in 2005-2006 from all reporting entity sectors. The banking sector submitted 42% of all STRs, 92% of all LCTRS, and

46% of all EFTRs. A detailed breakdown on banking sector reporting volumes is included in Annex 1.

1.2 How reports are used in FINTRAC cases

Reporting entities are critical partners in Canada's efforts to detect and deter money laundering and terrorist financing. Success in combating these crimes depends, to a considerable degree, on their vigilance in complying with the reporting, record keeping and client identification requirements of the PCMLTFA. The accuracy, completeness and timeliness of reports are fundamental to FINTRAC's effectiveness.

A main product of FINTRAC's analysis of the reports received from reporting entities is the case disclosure to law enforcement. Reports, along with other information available, are analysed to uncover connections among parties and to identify financial activity associated with patterns of suspected money laundering and terrorist activity financing. Once FINTRAC determines there are reasonable grounds to suspect that the information would be relevant to the investigation or prosecution of a money laundering or terrorist activity financing offence or threats to the security of Canada, FINTRAC must disclose "designated information" to the appropriate police force or security agency.

A case disclosure includes the following types of information:

- name and address of companies or individuals involved in the transactions;
- date, time and amount of the transaction; citizenship;
- transaction, transit and account numbers; and
- relevant publicly available information.

As shown in Figure 1, reports from banks were included in 95% of money laundering and terrorist activity financing case disclosures in 2005-2006.

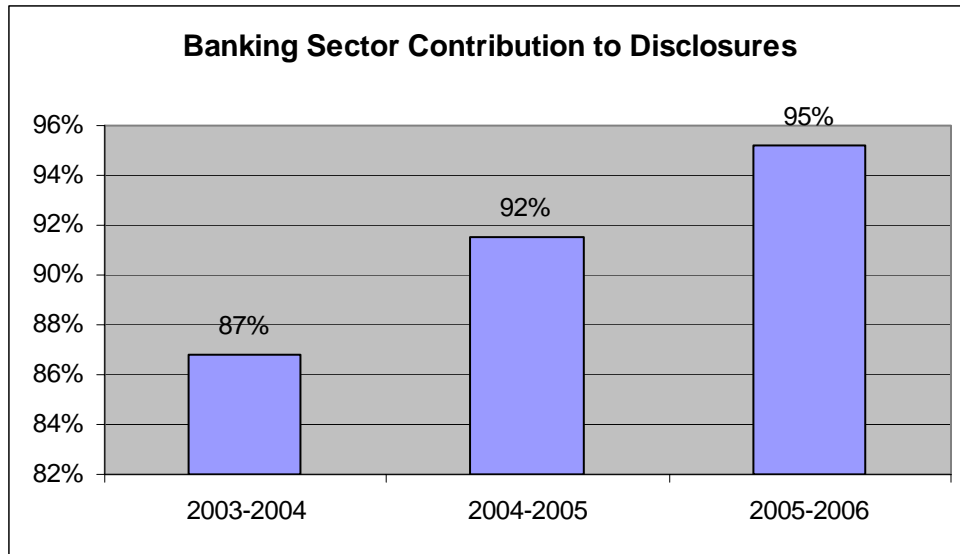


Figure 1

2. Tips on Reporting

2.1 The value of an STR

Reporting entities are required to send an STR to FINTRAC when there are reasonable grounds to suspect that a transaction is related to the commission of a money laundering offence or a terrorist activity financing offence. The STR contains specific information about financial transactions and must be sent within 30 calendar days after a reporting entity has become suspicious. A suspicion in relation to a money laundering or terrorist activity financing offence may also be related to more than one transaction. In this case, all transactions that contributed to the suspicion should be included in the same report.

STRs assist FINTRAC to identify patterns of suspect financial transactions and can support identifying links and connections among individuals, entities and accounts that may otherwise not have been known. STRs, in conjunction with the LCTRs and EFTRs, provide context for the overall flow of funds. In the case of a suspicious transaction report, a detailed explanation of what led to the suspicion is also extremely important to FINTRAC's analysis. For a detailed discussion of how different report types contribute to a case disclosure, please see "Building a Case Disclosure" from the Publications page of the FINTRAC Web site (<http://www.fintrac.gc.ca>).

Completing all applicable fields in the STR makes an important contribution to FINTRAC's ability to isolate activity pointing to possible money laundering or terrorist activity financing. While STRs account for less than 0.25% of all reports

the Centre receives, they represent 16% of all of the reports disclosed to law enforcement and security agencies for investigation and possible prosecution.

2.2 What makes a good STR?

In addition to the reporting entity's reasons for suspicion, STRs provide valuable analytical information, such as the following:

- the names of individuals and entities involved in transactions;
- directorships and signing authorities for business entities;
- account numbers and other key identifiers (e.g. date of birth, government issued ID, addresses, telephone numbers);
- the flow of funds;
- historical financial activity; and
- associated entities and individuals and relationships between them (e.g. family members, business associates).

The complete and consistent reporting of client details (name, address, ID documentation, date of birth, etc.) will ensure that FINTRAC has accurate information to search and verify its data holdings. Using the information on an STR, FINTRAC can also refer to open source information (e.g. media) to identify and verify links.

2.3 Reasons for suspicion in FINTRAC's case disclosures

FINTRAC conducted a review of all STRs provided by the banking sector that appeared in case disclosures and extracted reasons for suspicion from Part G of the report. In isolation, each of the reasons below may be insufficient to raise a suspicion of money laundering or terrorist activity financing, however the broader context of the disclosure allows this association to be made. Many of the reasons reported are also internationally recognized money laundering or terrorist activity financing indicators.

According to FINTRAC data, the most common reasons the banking sector provided for submitting an STR are as follows:

Money laundering

- Unable to ascertain source of funds
- Recent increase in account activity (large cash deposits)
- Structuring (wires and large cash) below the \$10,000 reporting threshold
- Flow through account(s)
- Excessive use of ATMs
- Deposits/transfers and immediate withdrawal/depletion of account balance
- EFTs from unconnected third parties from international locations to a single personal account

- Account activity is inconsistent with the customer's stated occupation.
- Third party cheques deposited to account.
- Conflicting ID
- Uneconomical movement of funds
- Large cash payments to a credit card, followed by cash advances
- Questionable use of multiple personal accounts
- Layering/purchase of multiple drafts after multiple deposits
- Multiple wires in and out within a short period of time
- Use of numbered companies/shell companies
- EFTs to and from offshore financial intermediaries
- Use of company name designed to resemble an established company
- Multiple businesses located at the same address, nature of business unknown
- Even dollar amounts deposited/transferred
- Wire transfers to/from countries with strict bank secrecy provisions or weak money laundering controls
- Wire transfers from entities whose business activity is unknown or inconsistent with customer's business history
- Bills of small denomination (twenty-dollar bills) in large amounts (smell musty, like marijuana, neatly packed)
- Minimal business payment activity (business accounts not used for related business activities, such as payroll, rent, etc.)
- Defiant stance to questioning
- Transactions undertaken by groups of individuals who are watched
- Multiple transactions performed on same sequential days
- Atypical or uneconomical fund transfer to or from foreign jurisdiction
- Multiple transactions when a single transaction would be more efficient
- Reactivation of dormant account
- Use of nominee or accounts held by relatives
- Missing documentation for stated business purpose
- Deposits drafts from money services businesses and foreign exchange dealers
- Use of branches outside of the service area of the client
- Reluctant to have LCTR completed
- Use of other individuals as fronts to open new account and continue business

Terrorist activity financing

- Customer known to authorities (ongoing investigation by law enforcement or a listed individual/organization)
- Unusual business activity (the type of activity was not consistent with the type of business for example numerous cash deposits to a business that would not normally receive cash payments or deposits made from across the country to a local business account)

- Unable to ascertain source of funds (in many instances the reporting entity could not ascertain the original source of the funds involved and often suspected that layering activity was taking place)
- Multiple deposits at different branches
- Third party deposits in US cash
- Wire transfers following cash deposits
- Wires to specific location/account on regular basis
- Large cash deposits
- Many third party deposits, appears to be operating MSB through the accounts
- Cash deposits to other client's account
- Appears to be using personal account for business purposes
- Many third party deposits followed by withdrawals
- Wires to business that do not appear to have any connection with client's business
- Unusual activity for personal account

It is important to describe why a transaction is suspicious and not to rely solely on indicators used. The complete context of why transactions seem suspicious is key for FINTRAC's analysis as it can assist in reaching the threshold of reasonable grounds to suspect that the information would be relevant to a money laundering or terrorist financing activity investigation or prosecution.

2.4 Sample suspicious transaction reports

The following are some sanitized samples from the STR's *Part G: Description of the Suspicious Activity* supplied by the banking sector. General observations on the usefulness of the information are also provided.

Suspicious Transaction Report # 1

PART G: Description of suspicious activity

- Ongoing investigation into pump and dump scheme involving Company A, Company B, Company C, Company XYZ, and several principal individuals.
- Review of Company A's securities account revealed deposits of certificates (shares) of Company XYZ, subsequently followed by a stock split.
- Company A then sold shares of Company XYZ through its securities account, while Company B was buying the shares through their securities account, with funds received from Company A.
- Bank drafts and cheques were deposited to the securities account of Company A (sale of shares), then funds were transferred to the securities account of Company B (to purchase shares).
- Bank drafts from Company A were also being deposited to the securities account of Company C; a review of the securities account of Company C revealed shares of Company XYZ held in the account.
- Additionally, funds were transferred from Company A to the director of Company B and a relative of the director of Company A.

The key information provided in this STR that assisted FINTRAC to develop a case includes the following:

- transactions and the context of the flow of funds illustrating how the share price of the company was artificially inflated;
- name and account number of an additional entity and identification of an individual found to be linked to the subjects involved in the scheme were used to further the search; and
- context was used in conjunction with other financial reports (LCTRs and EFTRs) to help analyse overall flow of funds.

Suspicious Transaction Report # 2

Part G: Description of suspicious activity

- Client 1 and client 2 were depositing large cheques drawn on different individuals and companies on a regular basis.
- Client 1 and client 2 would then issue cheques back to these same individuals and companies.
- When describing the transactions involving cheques:
 - account information and amounts were given;
 - financial institution information where the cheque was negotiated along with the corresponding account number was included.
- A list of the companies and individuals was given.
- Ownership of the companies were identified and also their relationship to each other.
- The employer of client 1 and client 2 was provided.
- Unusual activity of client 1 was discussed.
- Client 1's explanation of activity was included.

The key information provided in this STR that assisted FINTRAC to develop a case includes the following:

- names of six additional entities and five additional individuals;
- information that drew attention to funds flowing through a particular group of businesses; and
- a comprehensive account history.

Suspicious Transaction Report # 3

PART G: Description of suspicious activity

- A review of Account 1 held by Company 1 was completed from the date the account was opened.
- Deposits included a \$1,000,000 wire received from Company B which is in Country X, via Bank A.
- \$500,000 was transferred from Account 2 to Account 1.
- Disbursements from Account 1 included:
 - \$1,000,000 transfer used to open Account 2;
 - two wires totalling \$250,000 sent to Company C in Country B via Bank B in Country X;
 - a \$200,000 wire to Company C in Country Y via Bank C, in Country B; and
 - a \$100,000 wire transfer to Company D in Country Z via Bank B in Country Y.
- Client received \$10,000,000 wire from Country X, which is identified as a bank secrecy country.
- Most of the funds were used to open a new account for Company A.
- In a short period of time, client began transferring money back to Account 1 from Account 2 and transferring funds to companies in Country X and Z (identified as a high risk jurisdiction).
- Most of the wires are being funnelled through accounts held at banks in Country X.
- Source and destination of funds are unknown.

The key information provided in this STR that assisted FINTRAC in developing a case includes the following:

- names of three additional entities;
- information that drew attention to funds to and flowing through two countries of concern;
- a comprehensive account history from the account's open date; and
- a narrative useful in supporting the use of an internationally recognized indicator.

Suspicious Transaction Report # 4

PART G: Description of Suspicious Activity

- Client is purchasing high value drafts from funds drawn on CAD\$ business account. Funds in CAD\$ account originate from funds being transferred from US\$ business account. The US\$ business account shows some unusually high value incoming wire credits almost on a daily basis. Immediately after funds are received to US\$ account, business owner moves the funds to the CAD\$ current account leaving US\$ account depleted. After transferring funds, business owner issues large value cheques in replacement of drafts to various companies (Company X, Company Y, Company Z).
- Business owner's personal account reflects some unusually high value even dollar credits and debits. Client also moves high value even dollar amounts to various credit cards with other financial institutions ie; Institution 1, Institution 2.
- The fact that the funds originate from wire transfers consistently from the same source, are quickly moved to another account and depleted by way of draft purchases is very suspicious.
- The activity does not make business sense as accounts are being used solely as pass through.

The key information provided in this STR that assisted FINTRAC in developing a case includes the following:

- specific detailed information on the activities led by the business owner in the US\$ and CAD\$ business accounts;
- a narrative useful in supporting the use of an internationally recognized indicator; and
- an accurate and complete business owner identification (address, DOB, complete name).

Annex 1 – Reporting Breakdown for the Bank Sector

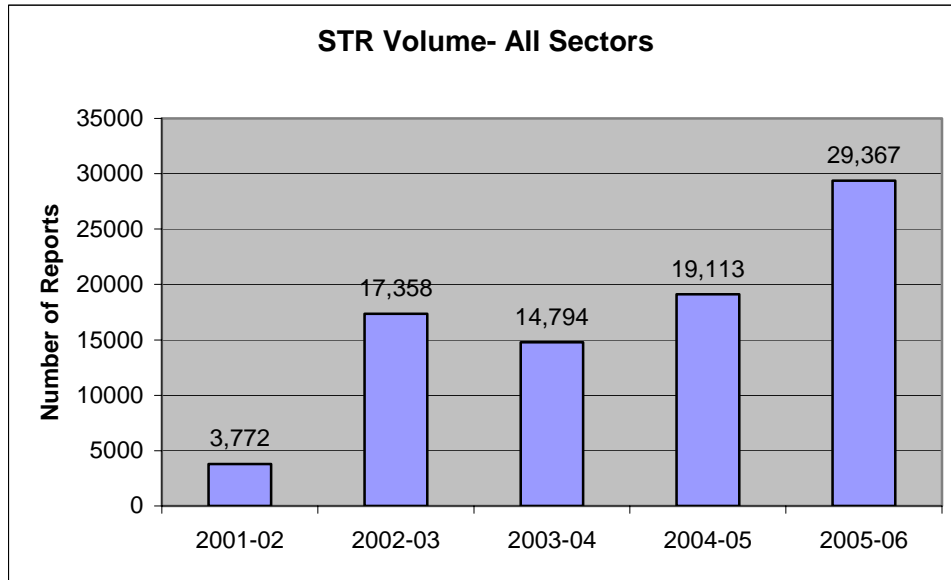


Figure 2

Figure 2 above illustrates that suspicious transaction reporting levels have, for the most part, steadily increased since FINTRAC first became operational in fiscal year 2001-2002.

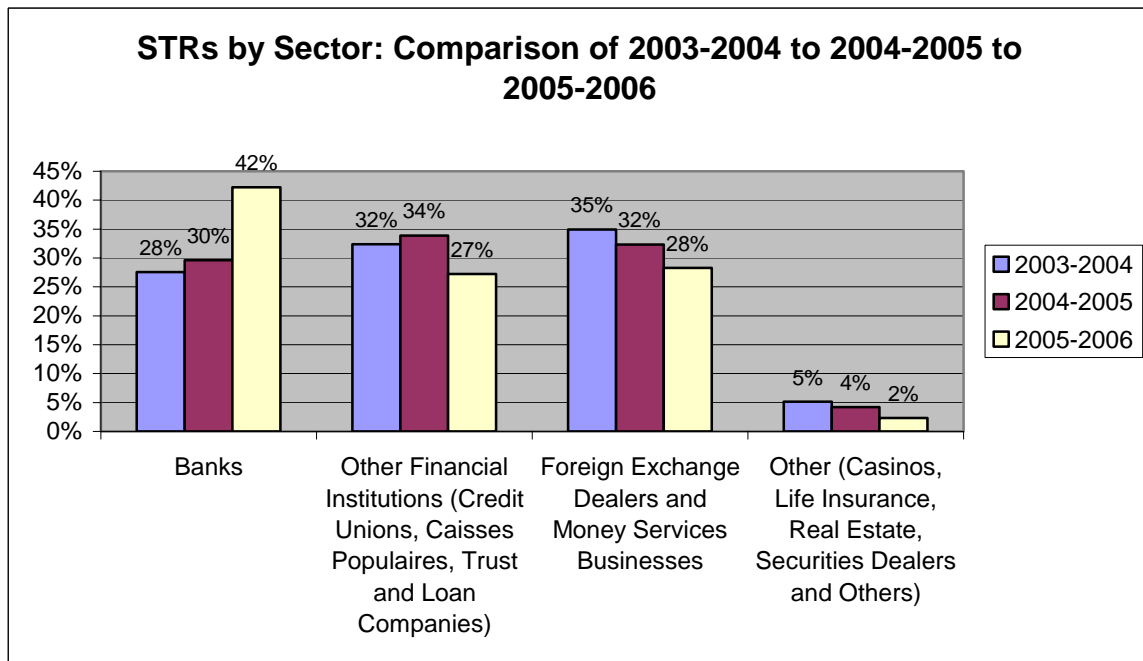


Figure 3

Between 2003 and 2006, the number of STRs submitted by banks tripled from just over 4,000 to just over 12,000. Banks submitted over 40% of all STRs received in 2006.

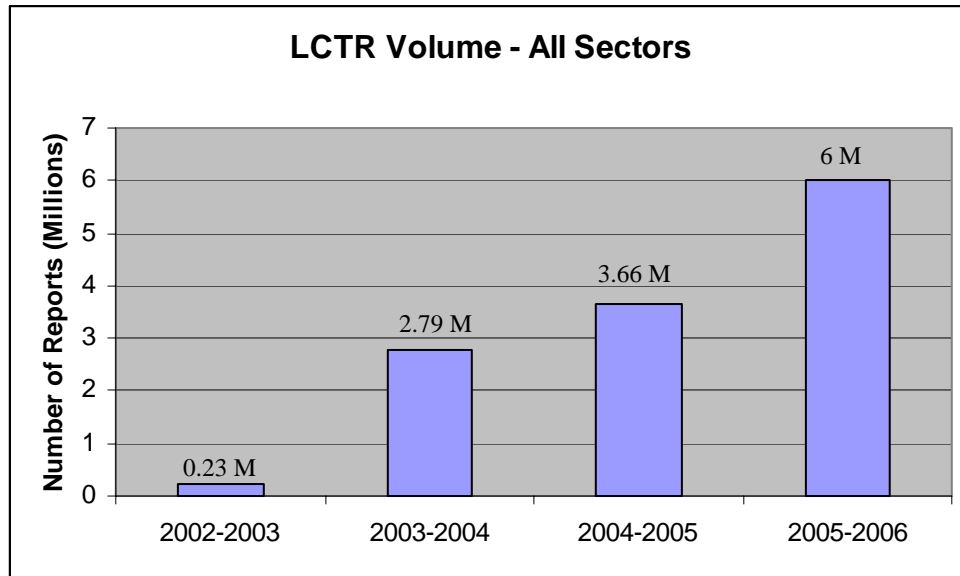


Figure 4

The number of LCTRs received has also increased steadily since FINTRAC began receiving LCTRs in fiscal year 2002-2003.

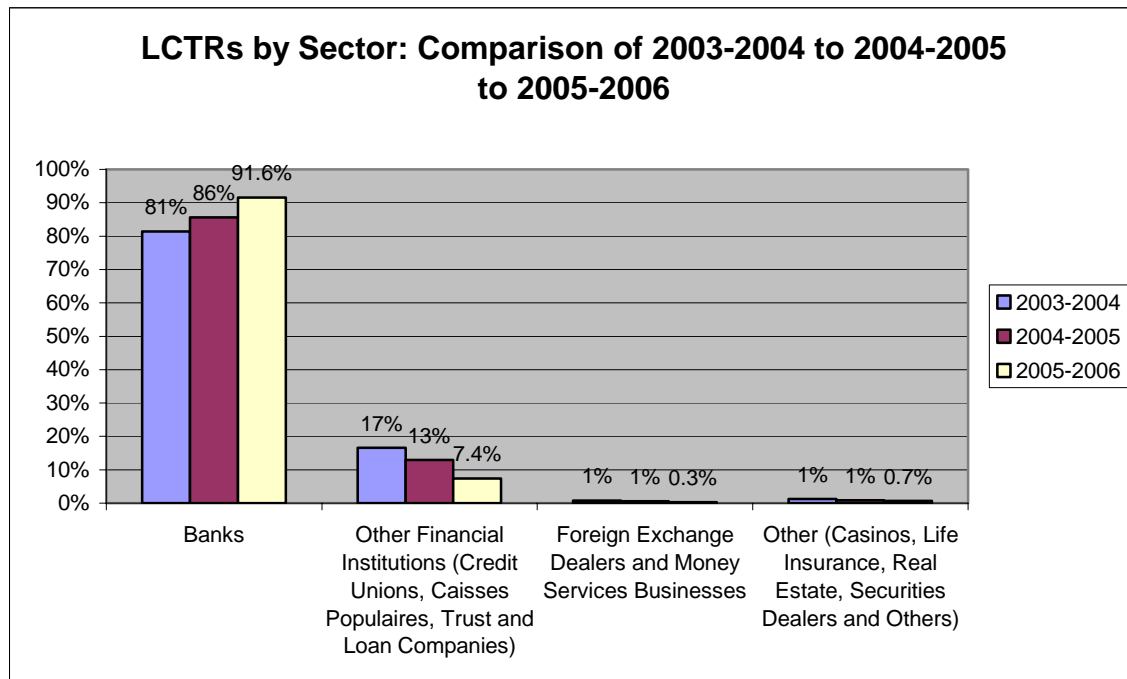


Figure 5

Banks submitted approximately 5.4 million LCTRS in 2006. The majority of LCTRs received are from banks.

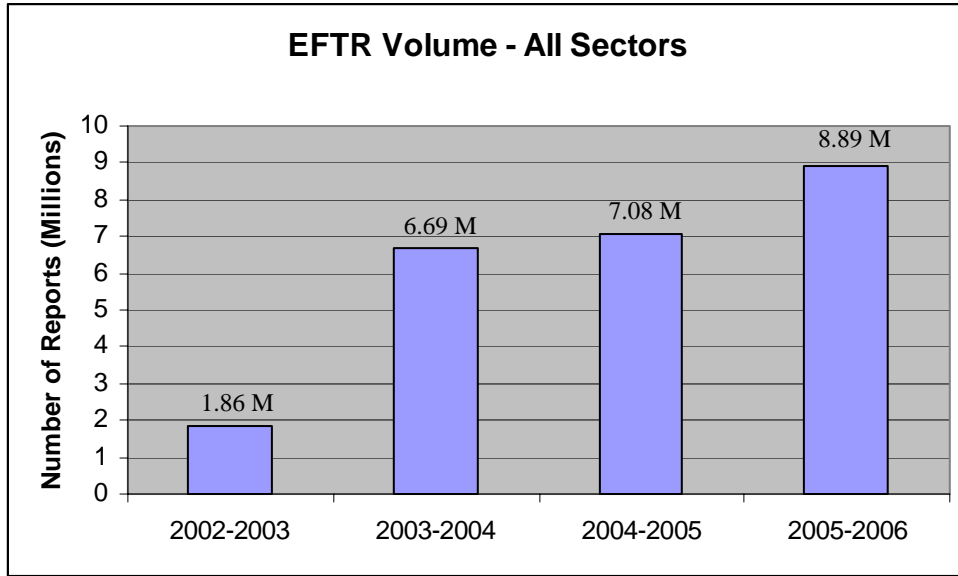


Figure 6

The volume of EFTRs received has steadily increased since FINTRAC began receiving EFTRs in fiscal year 2002-2003.

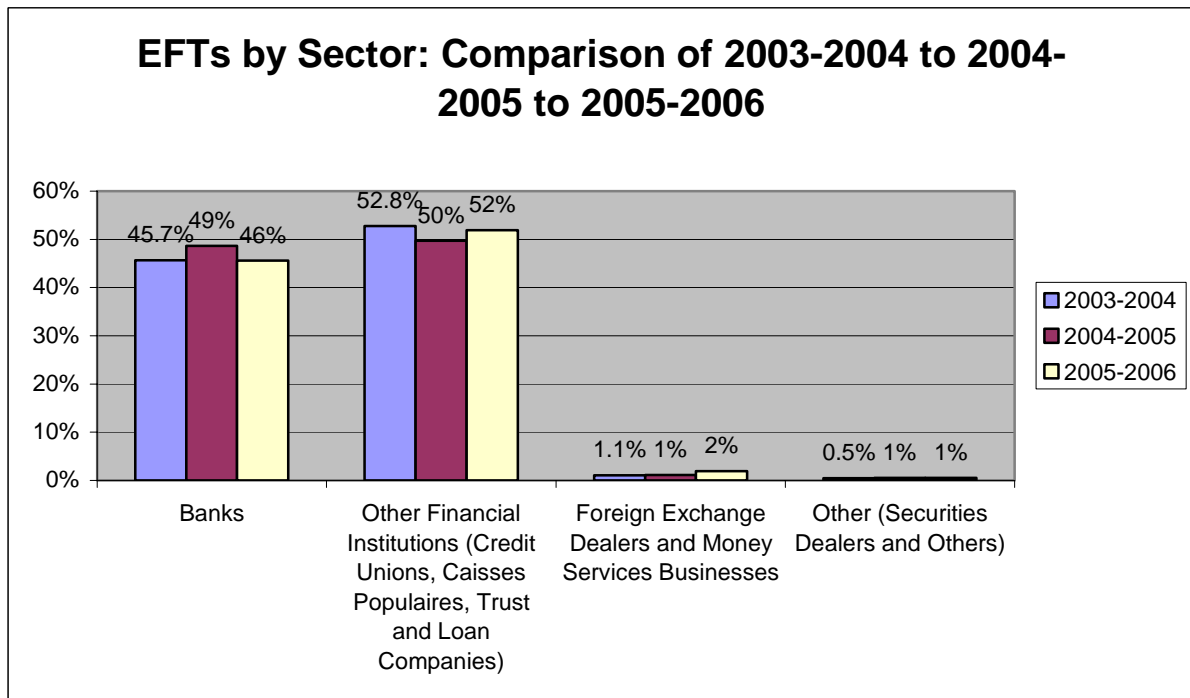


Figure 7

Banks submitted over 4 million EFTRs in 2005-2006. Close to half of the EFTRs received are from banks.