



Feedback on Suspicious Transaction Reporting

Credit Union Sector

FEEDBACK ON SUSPICIOUS TRANSACTION REPORTING: CREDIT UNION SECTOR

1.0 Introduction

This report has been prepared for the Canadian Credit Union 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 the Credit Union sector 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.

The Credit Union sector reported over 2,000 STRs and over 115,000 LCTRs in fiscal 2005-2006. A detailed breakdown on the 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 the Credit Union sector were included in 14% of money laundering and terrorist activity financing case disclosures in 2005-2006.

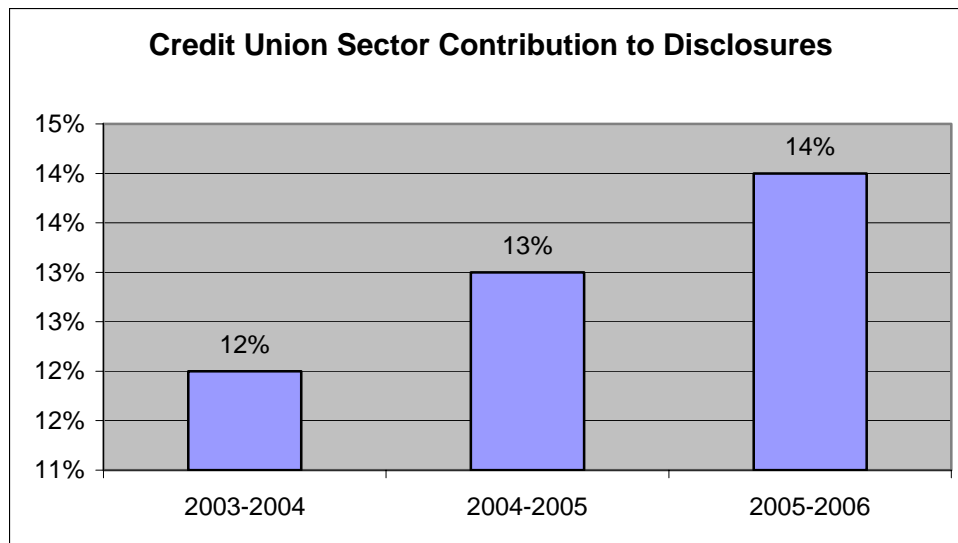


Figure 1

2.0 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 transaction 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, identification 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 the STRs provided by the Credit Union sector that appeared in case disclosures and extracted reasons for suspicion from Part G of these reports. 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 entire information contained in the case disclosure allows this association to be made. Many of the reasons reported are also internationally recognized money laundering or terrorist activity financing indicators.

Common reasons that the Credit Union sector provided for submitting STRs included in FINTRAC case disclosures include:

Money laundering

- Multiple deposits, at one or different branches, under \$10,000 to avoid reporting;
- Multiple large deposits within a short period followed by withdrawal or transfer out of account;
- Multiple large deposits followed by transfer to "countries of concern";
- Multiple instances of exchanging US dollars for Canadian, or vice versa;
- Cash deposit source unknown;

- Large cash deposits inconsistent with either: income, financial status, age, employment, type of business, location of business;
- Account holder accompanied by another person and apparently not fully aware of origin/destination/exact amount of funds to be deposited/withdrawn;
- Multiple deposits in a short period amounting to a large sum while avoiding contact with staff (e.g. use of ATM or night deposit box);
- New account activity inconsistent with account history (e.g. sudden deposits of large cash amounts, deposits of sums just under the reporting threshold);
- Customer attitude or refusal when asked to provide identification, employment information, source of funds, LCTR information;
- Large cash deposits by a person on multiple occasions into a number of different accounts held by the same individual or different individuals; and
- Unusual account/customer behaviour:
 - cash deposits by employees into employer's personal account;
 - cashing multiple cheques made to self and drawn from an account at another financial institution;
 - converting large cash amounts from smaller to larger bills, or vice versa, on a number of occasions;
 - cash deposit followed by transfer from personal account into business account; and
 - frequent deposits and withdrawals of cash with unsatisfactory explanation.

Terrorist activity financing

- Frequent, large wire transfers received from a location of concern;
- Unusual knowledge (or interest) about the wire transfer process;
- Customer is listed on a Terrorist Watch-list;
- Rapid movement of funds between accounts.

When completing an STR, it is important for reporting entities to describe, using narrative, why a transaction is suspicious and not to rely solely on the types of indicators set out above. 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* submitted by the Credit Union Sector. General observations on the usefulness of the information are also provided.

It is important to note that, in addition to *Part G* of the STR, FINTRAC also relies on the complete and accurate identification of individuals and entities (e.g. address, date of birth, complete name) in other sections of the STR (*Parts A to F*) to identify links and connections.

Suspicious Transaction Report # 1
PART G: Description of suspicious activity
<ul style="list-style-type: none"> ▪ An unusually large amount of cash was deposited into the individual's business account. A historical review of the account revealed that the deposits were always in cash, rather than the forms normally associated with commercial operations (e.g. cheques). ▪ It was noted that recently, the deposits had become larger and more frequent than previous weekly deposits. ▪ The night depository was used to deposit the cash (sometimes several times in one night), avoiding personal contact with credit union employees.

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

- narrative questioned the commercial sense of the deposits, compared transactions to previous account activity, and identified the fact that multiple use of the night depository was suspicious.

Suspicious Transaction Report # 2

Part G: Description of suspicious activity

- Individual used cash to purchase money orders, and consistently kept daily purchases under the \$10,000 reporting threshold.
- A detailed breakdown of the activities in the account was provided. It revealed that the individual also regularly deposited large amounts of cash, cheques and money orders to his account.
- It was also indicated that the individual had previously made unusual cash deposits at an ATM (large cash deposits consisting of new \$100 and \$50 bills) and therefore was restricted to in-branch transactions.

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

- narrative supported the use of an internationally recognized indicator (structuring);
- comprehensive account history and link to previous unusual behaviour provided context surrounding the suspicious transaction.

Suspicious Transaction Report # 3

Part G: Description of suspicious activity

- Individual made unusual inquiries about the methods used for wiring funds to a specific country of concern.
- Upon further inspection, the individual's name was located on the Consolidated List of names subject to the Regulations Establishing a List of Entities made under subsection 83.05(1) of the Criminal Code or the United National Suppression of Terrorism Regulations.
- This triggered a review of the client's personal account, business account, spouse's personal account and joint safety deposit box.
- It was noted that the activity in the individual's business account was inconsistent with their stated line of business.
- A review of all three accounts revealed that funds were regularly being transferred back and forth through the accounts.

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

- narrative described the client's behaviour, questioned the economic sense of the business account, and supported the use of an internationally recognized indicator (rapid in and out movement of funds);
- indication that the individual appeared on the Consolidated List of names subject to the Regulations Establishing a List of Entities made under subsection 83.05(1) of the Criminal Code or the United National Suppression of Terrorism Regulations raised immediate concerns.

Annex 1 – REPORTING BREAKDOWN FOR THE CREDIT UNION SECTOR

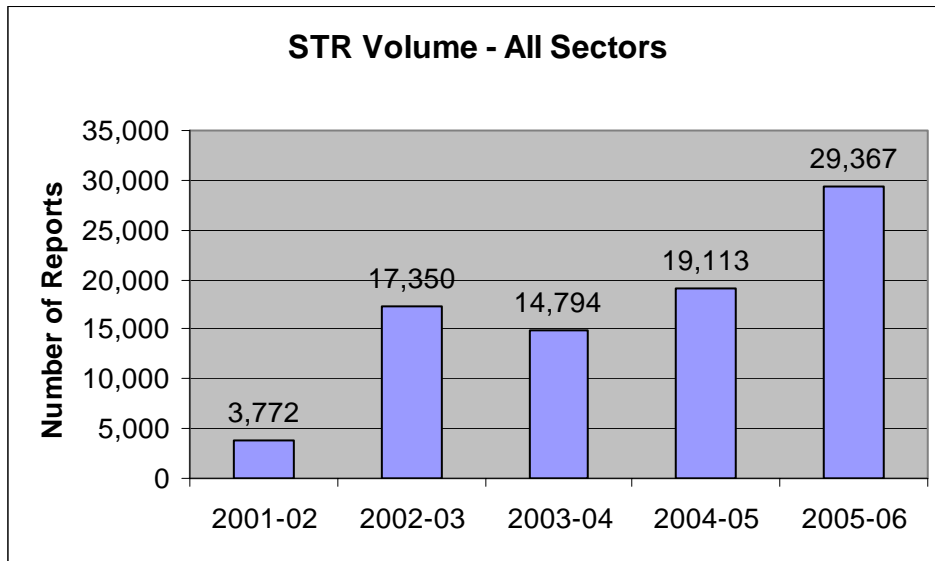


Figure 2

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.

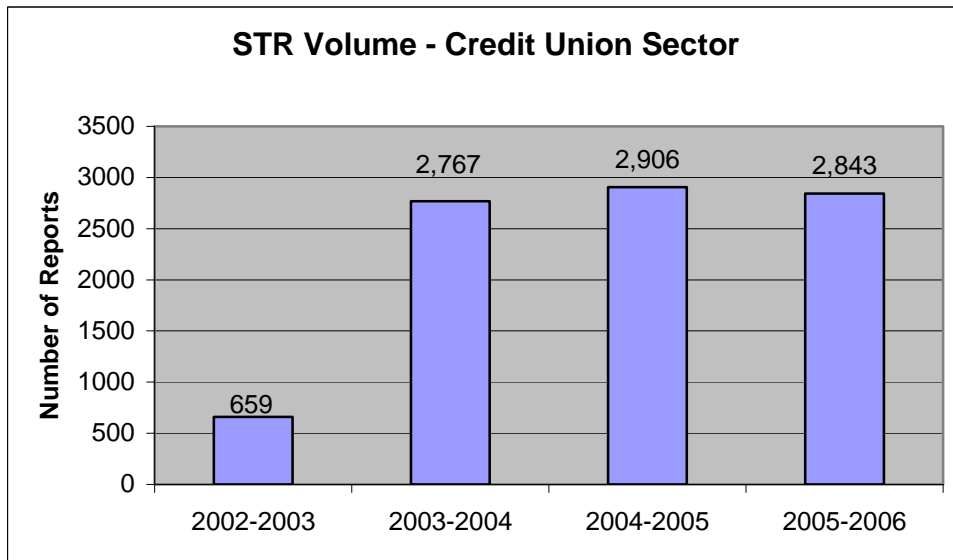


Figure 3

The amount of STRs submitted by the Credit Union sector has increased since 2002-2003. It has remained relatively steady for the past three years.

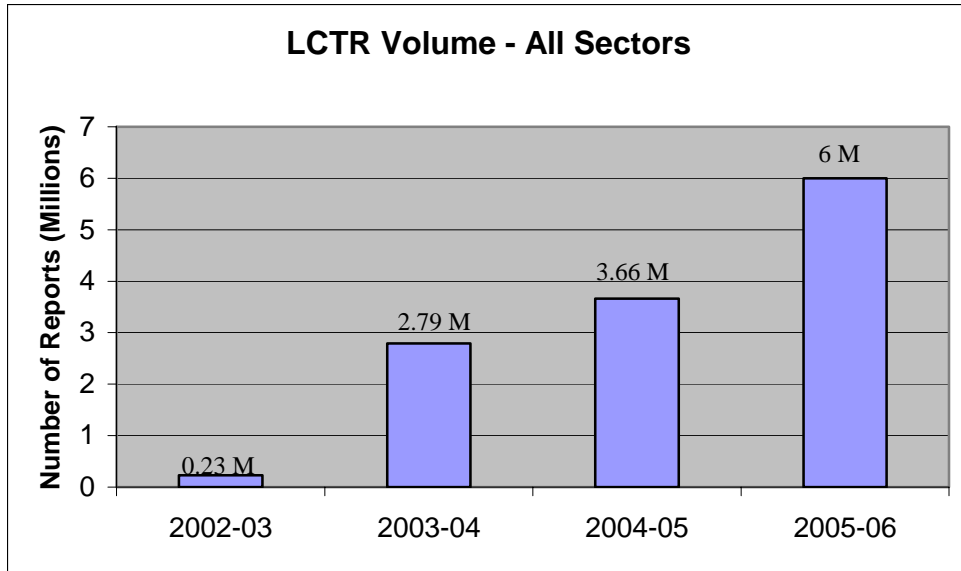


Figure 4

The number of LCTRs received by FINTRAC has also increased steadily since the Centre began receiving LCTRs in fiscal year 2002-2003, reaching 6 million reports in 2005-2006.

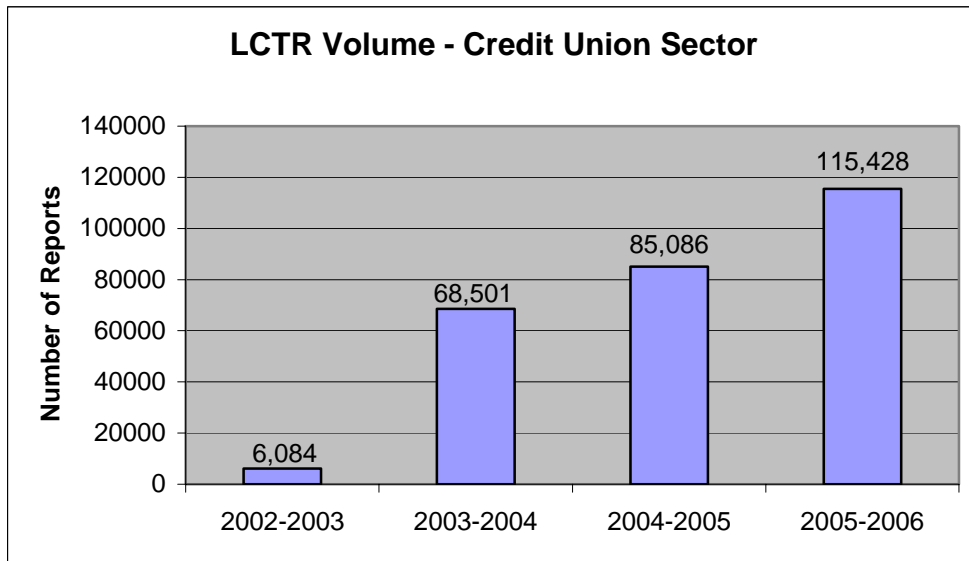


Figure 5

The number of LCTRs received from the Credit Union sector has increased steadily since fiscal 2002-2003. In 2005-2006, over 115,000 reports were received.