



Cleaning Up Money Laundering

Don Panchuk,
RCMP Inspector

Money laundering has gained more attention recently and Canada, like many developed countries, has fortified its initiatives to combat the problem. Since it is a criminal offence for any entity or person covered under the Proceeds of Crime (Money Laundering) and Terrorist Financing Act to knowingly facilitate, or fail to report a money laundering or terrorist financing transaction, it's important that we all understand the problem more thoroughly to help deal with it.

Defining money laundering and its scope

Organized criminals generate significant amounts of cash that they need to get rid of in order to avoid prosecution, increase their profits and appear legitimate.

Money laundering is the process whereby money gained through criminal activity is converted into some other form of asset with an origin that is difficult to trace. Criminals launder money in various ways by disguising the sources of their income, changing its form or moving funds to a place where they are less likely to attract attention.

The International Monetary Fund estimates global money laundering to be between two and five per cent of GDP, or half a trillion dollars each year. In Canada alone, the extent of money laundering activity is estimated to be in the billions of dollars.

The social and political costs of money laundering are equally staggering. In addition to enabling drug traffickers, terrorists, illegal arms dealers and other criminals to expand their illicit and harmful operations, money laundering undermines the legal, professional and ethical standards of the banking and financial services marketplace and, ultimately, society at large.

Chris Mathers, President of Corporate Intelligence at KPMG LLP, comments that a general lack of knowledge and understanding about money laundering makes the problem more difficult to combat. "Every time someone agrees to circumvent the taxation system with a cash transaction, they could be unknowingly abetting a money launderer," he says. "Many people who are not criminals offer to pay cash for big-ticket purchases as a way to avoid paying GST. When retailers accept thousands of dollars in cash without some sort of due-diligence process, they could be abetting a criminal operation."



™ Trademark of The Bank of Nova Scotia.

44 King Street West
Toronto, Ontario M5H 1H1

e-mail: cashmanagement@scotiabank.com
www.scotiabank.com

Canada fights back with tougher regulations and increased awareness

As of November 2001, individuals and businesses identified in the Act are required to report suspicious transactions to FINTRAC, the Financial Transactions and Reports Analysis Centre of Canada. Additional reporting regulations regarding electronic fund transfers, large cash transactions, and cross border movements of currency and monetary instruments will be implemented over the course of this year.

FINTRAC is an independent government agency responsible for the collection and analysis of information to assist in the detection and prevention of money laundering in Canada and abroad. FINTRAC's legislated mandate ensures that financial information in its possession remains confidential, and FINTRAC only discloses information to the RCMP when there are reasonable grounds to suspect that the information would be relevant to the investigation or prosecution of a money laundering offence.

RCMP Inspector Don Panchuk of the Integrated Proceeds of Crime Unit in Toronto comments that since the majority of money laundered in Canada is carried out through small businesses, it's essential that people be aware of its implications.

"There are three phases of money laundering: placement, layering and integration," Panchuk explains. "Placement is the riskiest for money launderers, since it involves taking illegally acquired funds and putting them into the banking system – and it's during this phase that legitimate businesses can most often be unwittingly drawn in."

"Large amounts of cash offered in any transaction should immediately trigger suspicion," continues Panchuk. "Refining – changing large numbers of small denomination bills into fewer, big ones – is a common money laundering technique which is easily done by visiting a number of banks so as not to arouse suspicion. Smurfing involves depositing cash or buying bank drafts in amounts under \$10,000, and it's another common technique."

"It's important for individuals employed in banks, currency exchanges, brokerages and other businesses to ensure that customers present current, verifiable identification," says Panchuk. "They also need to ascertain whether they are comfortable with the transaction they are being requested to perform, and whether the transaction makes sense considering the customer's profile."

There are penalties, including fines and jail terms, for those institutions and individuals which fail to comply with the new regulations.

Scotiabank fortifies its anti-money laundering initiatives

"The key to servicing our customers' needs and to preventing money laundering is for customer service and account relationship staff to know our clients," says Bill Fowler, Director of Scotiabank's new Anti-Money Laundering Compliance Unit.

The unit was established earlier this year to ensure that policies and procedures are established within Scotiabank Group to prevent money laundering, and to ensure compliance with the legislation and regulations in all of the jurisdictions in which the bank does business.

"Our unit analyzes the Unusual Transaction reports that come in from all branches and subsidiaries in Canada," Fowler adds. "Where we have reasonable grounds to suspect that a transaction is related to money laundering, we report it to FINTRAC."

In addition, the Anti-Money Laundering Compliance Unit is involved in training initiatives, implementing staff programs to ensure that responsibilities are clearly understood and complied with, and improving the quality and effectiveness of the information provided to the authorities.

Richard Lyon, Senior Manager of Scotiabank's Anti-Money Laundering and Due Diligence Investigations Unit says his group investigates suspicious transactions identified through the Anti-Money Laundering Compliance Unit, and is responsible for filing reports on these transactions to the RCMP.

Lyon comments that globally the whole banking industry is developing new methods to detect money laundering such as smart software and neural networks that are capable of identifying suspicious banking patterns.

"The new laws require us to maintain more information and profile our customers more stringently. We take money laundering prevention very seriously," concludes Lyon. "The Bank could potentially be involved in any stage of money laundering and we're putting all our products, services and systems under greater scrutiny."