

Sample FINTRAC Risk Analysis Report: ABC HOME BUILDERS

NOTE: This report will be completed and kept on file by the person in our company responsible for our compliance with FINTRAC (compliance officer). It will be reviewed and updated every two years.

Date: dd ... mm ... yyyy

Our Company

Name:

Address: Apartment #

City Prov Postal Code:

Established in: ... yyyy

Type of business structure:

(corporation, partnership, sole proprietorship, etc.)

Owner(s) / Partners:

.....
We come under Canada's *Proceeds of Crime (Money Laundering) and Terrorist Financing* legislation as a 'real estate developer' because in 2008 (or later first year:), we sold to the public (check all that apply)

- five or more new houses or condominium units
- one or more new multi-unit residential building containing five or more units
- two or more new multi-unit residential buildings which together add up to five or more units
- one or more new commercial building
- one or more new industrial building

Products and Services Offered

ABC Home Builders sells to the public approximately(40).... new single detached, duplex and townhouse units per year. Townhouse projects can be either condominium or fee simple. We buy lots from developers, and currently operate in(3).... subdivisions, all located within (40 km) of the head office. We provide all design and construction services.

We also undertake occasional renovation projects, but these do not come under the legislation and do not carry FINTRAC record keeping and reporting obligations.

How We Deal With Clients

All sales of single detached and duplex homes are handled in house. There are three people who deal with clients: the owner, business manager, and/or sales agent. The sales agent is not a provincially licensed real estate agent, and does not have her own reporting obligations under FINTRAC.

Typically, potential clients are met in the sales office and invited to fill out prospect cards, giving their names and contact information. When they are ready to make an offer, our company representative(s) sit down with them and fill out our standard Offer to Purchase. The clients are asked to complete the section with their personal identification, including name, address, phone/fax/email contact information, date of birth, and occupation or type of business.

There is also a section to record personal identification information for each individual, which is completed by our company representative. He or she will check the ID to make sure the information available on it (name and as many as possible of address, date of birth, photo and signature) match those given by the person signing the offer. Normally, a photocopy of the identification document is attached to the file. We just started this practice two years ago, but so far we have not had any individuals who were unwilling or unable to provide identification. Our company policy is to record any such problems on the file, and send a report to our person responsible for FINTRAC compliance.

In the past, we have not had any specific practices to try to identify whether the real buyer is someone other than the person signing the Offer to Purchase. As of February 2009, it is our policy to ask all buyers whether or not they are acting for someone else, and if so who that person or company is. They must complete and sign a disclosure statement to this effect, which is part of the Offer to Purchase.

In the past five years, we have only had (6) sales to corporations. We have always recorded name, address and type of business for corporations, partnerships or similar 'entities'. Because of FINTRAC requirements, we have added sections for confirming the existence of this type of client, and getting additional information for corporations (list of directors, signing authority) as of February 2009. We normally request that the corporate representative provide us with a photocopy of the corporation's annual return to Industry Canada or the provincial Corporations Branch. In addition, we request a copy of the Corporation's Board resolution authorizing the purchase.

When they fill out and sign the Offer to Purchase, potential purchasers are asked to make a deposit. In the vast majority of cases, they make this and any subsequent payments by cheque. Cheques and similar payment documents are photocopied and kept on file. Details of these deposits and any subsequent payments towards the agreed downpayment are recorded and filed. Funds are sent to our lawyers and kept in a trust account. Lawyers

are identified in the transaction file for each sale. Additional payments may be made by clients when they choose finishes and upgrades. These are handled in the same way as above. Final payments at closing are always handled by our lawyer.

In the past, we have occasionally had some customers who wanted to make all or part of a payment in cash. Despite the fact that people never paid more than \$2,000 in cash, as of January 1, 2009, it is our company policy not to accept cash payments.

Our Understanding of Common Risks for our Sector

A 2004 study of RCMP cases involving money laundering found that almost 56% had included the purchase of real estate. More than 70% of those involved the purchase of one or more single-family homes, and 12% involved the purchase of multi-family buildings. In the vast majority of cases, the accused purchased a home to live in. Numerous homes were also purchased as marijuana grow ops. In 77% of the cases involving real estate, cash was used as a deposit, a down payment or a mortgage payment. In more than 60%, the accused used someone else as the registered owner or mortgagee, including relatives, friends, business associates, lawyers, and shell or legitimate companies.

The actual number of cases represented a minute percentage of the total volume of real estate transactions taking place. And the transactions themselves were usually legal – that is the whole point of money laundering. However, our business does face some risk of being used for placing the proceeds of crime (especially cash) into the legitimate economy, and it is conceivable that one of our homes could become a terrorist property or be used for a criminal home or operation.

Additional Risk Considerations

FINTRAC has identified some indicators which may suggest higher risk operations. Here is how those indicators appear to affect our company:

Client base:

FINTRAC suggests that a business with ongoing, known clients is considered to be at low risk, while growing one with lots of new clients in a wide geographic area is considered to be at high risk.

We do not operate in a wide geographic area. Our clients generally speaking are new to us. However, sales records show that more than (60%) are referrals from existing clients, and approximately (15%) are repeat customers. The vast majority are individuals or couples buying their own home. Since (90%) plus live in the homes they buy, they are easy to locate. To the best of our knowledge, none of the homes we have built and sold in the past five years has been reported as being used as a marijuana grow op or similar.

Risk Avoidance: Our procedures to identify buyers and ask people if they are buying on behalf of someone else should reduce residual risk of fraud or nominees.

Assessment of Risk: Low

Cash Transactions:

FINTRAC suggests that a business with few to no large cash transactions is considered low risk.

In the past five years, we have experienced very few cash transactions and none at the '\$10,000 or more' definition of a large cash transaction.

Risk Avoidance: As of February, 2009, it is our company's policy not to accept cash payments.

Assessment of Risk: Low

International Accounts:

FINTRAC suggests that a business with few transactions involving international clients or accounts is considered to be low risk.

In the past five years, we have had a small number of sales to buyers living overseas. However, two were to Canadians serving in the armed forces. The other was to residents of South America who immigrated to Canada under a family reunification program. There may be a trend of more investment buyers from Europe, however, who might be a bit more difficult to identify.

Risk Avoidance: Additional measures will be used to identify clients abroad.

Assessment of Risk: Low-Moderate

Local Crime:

FINTRAC suggests that businesses located in a low-crime area are at lower risk than those in an area known to have a high crime rate.

Our City is reported to have a crime rate equivalent to the national average (information from local police force and/or media reports). The areas in which we are building appear to have a rate lower than the city as a whole.

Risk Avoidance:

Continue choosing building sites in low-crime areas. If we undertake a project in a higher-crime area, we will inform staff of need for increased care in identifying customers and tracking indicators of suspicious transactions.

Assessment of Risk: Low

Transactions with High-Risk Geographic Areas:

FINTRAC suggests that a business with no transactions with high-risk geographic areas is considered at low risk.

High risk geographic areas appear to be parts of the world with few legal structures to avoid crime, money laundering or terrorist centres. We have never had any clients from these areas. Nor do we expect to.

Assessment of Risk: Non-existent

Personnel turnover

FINTRAC suggests that a business with low turnover of people dealing with customers, handling funds and/or ensuring FINTRAC compliance is considered at low risk.

Funds and FINTRAC compliance are dealt with by the owner and the business manager, both of whom have ownership positions in the company. The sales representative has been with us for two years. Our previous representative was with us for less than six months, but the one before that was here five years.

Risk Avoidance:

We train new staff people on FINTRAC requirements and compliance before they start dealing with the public. Rights in all records remains with us. Records and reports are backed up every week.

Assessment of Risk: Low

ABC Home Builders:

Assessment of Risks after Risk Avoidance Measures

INDICATOR	LOW	L – M	MODERATE	M – H	HIGH
Client base	X				
Cash Transactions	X				
International Accounts		X			
Local Crime	X				
High Risk Geographic Areas	N/A				
Staff Turnover	X				

Key Indicators of Suspicious Transactions

- buyer starts to fill out the Offer to Purchase but stops when asked to provide identification
- buyer purchases property in the name of an associate or relative, other than a spouse
- buyer doesn't want his or her name on any document that would connect them with the property or uses different names on the Offer to Purchase, deposit receipts and closing documents
- buyer wants the purchase documents to show a lower price than negotiated, paying the difference 'under the table'
- buyer makes several payments in cash, each of which is less than the '\$10,000 within 24 hours' that would trigger a Large Cash Transaction report, but they add up to significantly more than \$10,000?
- buyer pays in bank notes, bearer cheques or other anonymous instruments
- local news media report that the buyer has been charged with or convicted of criminal or terrorist activity
- buyer changes the name of the purchasing party at the last minute
- deposit(s) are paid by a third party, other than the buyer's spouse or parent
- buyer uses a corporation to buy a house or condo for itself or someone else, when you know the company does not normally deal in real estate
- buyer purchases a property but shows no interest in its features, finishes or the final pre-closing inspection
- buyer purchases a number of properties in a short time period
- buyer will only provide signature on documents by fax (except where they cannot be physically present and you use a mandatory to confirm ... see Foreign Buyers)
- buyer does not want correspondence sent to home address
- buyer uses a General Delivery address
- buyer is unusually concerned about your compliance with government reporting requirements and anti-money-laundering policies
- buyer appears extremely nervous or uncomfortable