



# **Anti-Money Laundering & Counter Terrorist Financing (AML/CTF) Training Course**

## **CREA – Module Five: Suspicious Transaction Indicators**



## Learning Objectives:

Upon completion of this training module you will be able to:

- Recognize some common indicators of money laundering and terrorist financing that will assist in identifying possible suspicious transactions (**completed or attempted**);
- Use questioning techniques to probe into a client's transaction to determine whether a transaction (completed or attempted) is suspicious; and
- Identify possible suspicious transaction indicators.

**You may want to review Module 3' for the SAFE Approach to identifying suspicious transactions, as well as your industry specific suspicious indicators.**



## Introduction: What are Suspicious Transactions?

- Suspicious transactions are financial transactions that you have reasonable grounds to suspect are related to the commission of a **money laundering offence**. This includes transactions that you have reasonable grounds to suspect are related to the **attempted** commission of a money laundering offence.
- Suspicious transactions also include financial transactions that you have reasonable grounds to suspect are related to the commission of a **terrorist activity financing offence**. This includes transactions that you have reasonable grounds to suspect are related to the **attempted** commission of a terrorist activity financing offence.
- “Reasonable grounds to suspect” is determined by what is reasonable in your circumstances, including normal business practices and systems within your industry. **A suspicious transaction is one that no matter the monetary amount gives you a feeling of discomfort, apprehension, or mistrust.**



## What are Completed or Attempted Transactions?

**A Completed Transaction:** is one that has occurred. For example, if you process a deposit from a client towards the purchase of an asset such as a house, a financial transaction has occurred.

This is true even if the final sale associated to the deposit does not go through. In this example, the refund of the deposit would also be a financial transaction.

**An Attempted Transaction:** is one that a client intended to conduct and took some form of action to do so.

An attempted transaction is different from a simple request for information, such as an enquiry as to the fee applicable to a certain transaction.

An attempted transaction includes entering into negotiations or discussions to conduct the transaction and involves concrete measures to be taken by either you or the client.



## Part 1: General Suspicious Transaction Indicators

The following slides indicate general suspicious transaction (completed or attempted) indicators. These indicators have been created to provide you with guidelines to assist in being better able to identify suspicious financial transactions.



For additional indicators go to the FINTRAC web site at:

<http://www.fintrac-canafe.gc.ca/publications/guide/Guide2/2-eng.asp#s3>



## Section Overview:

General suspicious transactions (completed or attempted) fall into eight main categories:

1. General criteria
2. Knowledge of money laundering issues
3. Identity documents
4. Cash transactions
5. Economic purpose
6. Transactions involving areas outside of Canada
7. General indicators related to offshore business activities



## 1. General Criteria

### Behavioural

#### The client:

- Is nervous, not in keeping with the transaction
- Is defensive when questioned [and leaves office]
- Is secretive and reluctant to meet in person
- Presents confusing details about themselves and/or the transaction
- Over justifies or explains the transaction
- Makes statements about involvement in criminal activities

### Financial/ Transaction Details

#### The client:

- Does not want correspondence sent to their home address
- Appears to have accounts with several financial institutions in the area [and withdraws request of service when questioned]
- Seems to be watched or is accompanied during the transaction
- Seems to be willfully blind to being involved in possible money laundering activities
- Leaves office and does not complete transaction when asked for ID



## 2. Knowledge of Money Laundering Issues

### Financial/ Transaction Details

#### The client:

- Attempts to convince you not to complete necessary forms [and does not complete transaction when unsuccessful].
- Makes inquiries that would indicate a desire to avoid reporting.
- Has unusual or above the average person's knowledge of the law in relation to suspicious transaction reporting in keeping with the transaction being conducted.
- Shows uncommon curiosity about internal systems, controls and policies.



## 3. Identity Documents

### Financial/ Transaction Details

#### The client:

- Provides doubtful or vague identity information.
- Refuses to produce personal identification documents.
- Wants to establish identity through means other than personal identification documents.
- Has supporting documentation that lacks important details, such as a phone number or street address.
- Submits only *copies* of personal identification documents.
- Has their home phone disconnected and provides various cell numbers.
- Inordinately delays presenting personal or corporate documents.
- All identification presented is foreign or cannot be checked for some reason.



## 4. Cash Transactions

### Condition of Cash

#### The cash is:

- Musty or extremely dirty.
- Is in denominations larger than usual for the client.
- Packed or wrapped in a way that is uncommon for the client.
- Large amounts of smaller denominations, crumbled and the total amount unknown to the client.

### Financial/ Transaction Details

#### The client:

- Conducts a transaction that is unusual compare to amounts of his or her past transactions.
- Makes large cash transactions that are consistently rounded off amounts or slightly less than FINTRAC's reporting thresholds (\$10,000).



## 5. Economic Purpose

### Financial/ Transaction Details

#### The transaction:

- Transaction involves non-profit or charitable organization for which there appears to be no logical economic purpose or where there appears to be no link between the stated activity of the organization and the other parties in the transaction.
- Does not appear to be driven by normal commercial practices or demands.
- Fund transfers to overseas destinations with no, or very little in the way of a supporting business explanation.
- Switching funds between several accounts in different
- institutions or jurisdictions in an attempt to confuse the audit trail.
- The amount of the transaction does not reflect the customer's known level of personal wealth.



## 6. Transactions Involving Areas Outside Canada

### Financial/ Transaction Details

- Where illicit drug production or exporting may be prevalent, or where there is no effective anti-money laundering system.
- Known for highly secretive banking and corporate law.
- Known or suspected to facilitate money laundering activities.
- Transaction involves a country known or suspected to facilitate money laundering activities.
- Transactions with customers with Canadian addresses who originate payments from foreign bank accounts.
- Transactions involving any countries deemed by the Financial Action Task Force as requiring enhanced surveillance.
- Transaction involves a country known for highly secretive banking and corporate law.

## 7. Offshore Business Activity

### Financial/ Transactional Details

- Accumulation of large balances, inconsistent with the known turnover of the client's business, and then subsequent transfers to overseas account(s).
- Loans secured by obligations from offshore banks.
- Loans to or from offshore companies.
- Offers of multi-million dollar deposits from a confidential source to be sent from an offshore bank or somehow guaranteed by an offshore bank.
- "Shell" banks that have names very similar to the name of a legitimate institution.
- Unexplained electronic funds transfers by clients on a regular in-and-out basis.
- Credit cards issued by an off-shore bank.



## Additional Indicators used in Terrorist Financing Activities and Money Laundering

### Financial/ Transactional Details

#### Some common activities reflective of terrorist financing/money laundering:

- The use of legal businesses to co-mingle funds destined to assist terrorist groups.
- The use of shell companies to conceal the beneficial ownership of business accounts.
- The use of informal money transfer systems where money is transferred from Canada to a foreign country without using a formal EFT system through a financial institution. These are called hawala, hundi, or fei chien.
- The use of family or friends who are trusted within the community, and who will not attract attention, to conduct transactions on behalf of the terrorist group.
- The use of “smurfs” to deposit cash or purchase bank drafts in smaller amounts that do not attract attention.

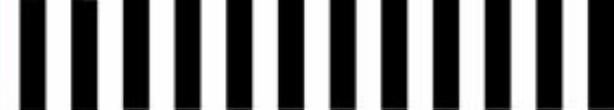


## Part 2: Identifying Suspicious Transaction Indicators

In this section, we'll look at a variety of scenarios involving possible suspicious transaction activities.

Try to identify as many suspicious indicators you can.





## Scenario 1: Account Opening - Real Estate John

Tanya is a Member Service Representative (MSR) at a rural credit union. A man, by the name of John, is looking to immigrate to Canada with his family. He wants to open an account with the proceeds of the sale of a pub back in Dublin.

He presents the identification needed to meet the criteria to open an account. In conversation, the MSR learns that John will be moving to Canada with his wife and her mother within the next few months.

A document from a well-known realtor confirms a land purchase has been made locally with the intention that John and his family will be farming when they settle in Canada.

John deposits a Bank Draft for \$650,000 which is verified with the issuing bank.

**Are there any suspicious transaction indicators here?**



## Scenario 1: John

Several months go by and John contacts Tanya the MSR to say that they are experiencing some problems with the necessary paperwork in order to complete the move to Canada and that, unfortunately, it may not happen as planned.

Shortly thereafter, John calls Tanya again to state that the paperwork cannot be completed due to his mother-in-law having suffered health issues and they will not be moving to Canada.

However, John is looking to purchase a farm elsewhere and asks about the process of having bank drafts issued and forwarded to the appropriate recipients.

**Are there any suspicious transaction indicators here?**



## Scenario 1: John

Over the next 6 months, Tanya receives signed faxes from John asking her to forward bank drafts on his behalf to various beneficiaries throughout the world, including his sons, his sister, a tractor company, a solicitor and others.

The account is virtually emptied and eventually closed.

**Are there any suspicious transaction indicators here?**

**If you were Tanya, would you file a Suspicious Transaction Report?**



## Scenario 1: John - Solution

The indicators in this scenario, that when put together led Tanya to complete a Suspicious Transaction Report, are:

- The deposit of this amount of money when confirmation of John's immigration was not confirmed
- His request to have funds dispersed to multiple individuals
- John's insistence to have the credit union forward the drafts, rather than the funds coming from John himself
- If he sold his pub and is looking to purchase a farm, why does John disperse the majority of the funds in small increments to a variety of individuals?

**Tanya's decision to complete a Suspicious Transaction Report was the right one!!**

One year later law enforcement contacts the credit union investigating a known international money launderer who has funneled cash around the globe. His name is John and he resides in Ireland!!

## Scenario 2: Mortgage Joanne Smith

A schedule bank in Canada has many methods of developing its mortgage business and one of them is from mortgage brokers. Sandra is an underwriter for them and is eager to build this area of business within the organization.

Joanne Smith lives in New York but is being transferred to Victoria, B.C. for business reasons. She approaches a mortgage broker to assist her with financing so that she can move her family into their new home. The mortgage broker submits the application to Sandra with the following information:

- Joanne Smith is an Operations Consultant for a Hotelier in New York; she earns \$300,000 U.S. annually and has been employed with the organization for 5 years.
- She is 38 years of age, married with one child but her husband will not be on the mortgage.
- Joanne indicated that she has \$750,000 in investments but does not want to cash in at this time. The mortgage application is for \$800,000 plus the insurance premium which is an 85% advance; the estimated mortgage payment is \$3500 monthly.
- Joanne has minimal debt and all credit cards are managed on a monthly basis.



## Scenario 2: Mortgage Joanne Smith

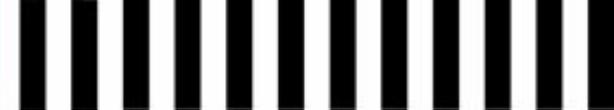
Along with the application, Sandra receives a letter of employment supporting the \$300,000 U.S. annually and a copy of an investment statement supporting investments of \$750,000.

The mortgage file was approved by management and Sandra forwarded the 5 year term commitment letter to the mortgage broker for the customer's signature.

Joanne agreed to the terms and signed off the commitment letter providing approval for automatic withdrawal of the monthly mortgage payments.

At the lawyer's office, Joanne provides her active Ontario driver's license and her work visa as identification to meet the requirements of the bank. The mortgage is advanced and the customer takes possession of their new residence.

**Are there any suspicious transaction indicators here?**



## Scenario 2: Mortgage Joanne Smith

A month later, Joanne's first mortgage payment is returned "insufficient funds".

Debbie is the collector and through discussion with Joanne determines that Joanne's payroll deposits are not going through to her account in Canada properly and she is having difficulties setting this up.

Joanne agrees to send the payment by Western Union. This continues to happen for the next 5 months. Debbie phones Joanne at her office, leaves a message on an answering machine and within 24 hours Joanne will return her phone call with a commitment to send the payment by Western Union.

Then for the next three months, payments are not made and phone calls are not returned. Foreclosure action is threatened in a demand letter sent to Joanne at their residence. Debbie receives by FedEx a bank draft for \$15000 payable to the bank for the arrears plus a small pre-payment. Debbie begins to think this is unusual and refers the file to the compliance officer for review.

**Are there any suspicious transaction indicators here?**

## Scenario 2: Mortgage Joanne Smith

The indicators in this scenario, that when put together led to the completion of a Suspicious Transaction Report by the compliance officer, include:

- the letter of employment while signed by the Vice-President Human Resources did not indicate a website address (this seemed unusual for an international company).
- when the compliance officer called the company number and asked the receptionist for the website address, she didn't know it but indicated she would call back with the information but hung up before getting call back information.
- a security officer returned the phone call to the compliance officer indicating there was no website.
- upon closer review of the investment statement there seemed to be manual changes made that were not previously detected by the underwriter.
- Joanne was from New York but she had an active Ontario driver's license and she was being paid \$300,000 U.S. but her mortgage payment was not being made in a timely fashion.
- Western Union payments are expensive and seemed unusual that someone with this profile would utilize this service more than absolutely necessary.
- The mortgage was in arrears, phone calls not returned and then suddenly a bank draft to pay arrears and pre-pay marginally (source of the funds was unknown).



## Part 3: Probing Questions

Identifying suspicious transactions will normally involve putting together two or more factors and you should be comfortable in asking the client probing questions to clarify your suspicions.

In this section, we'll look at a few circumstances in which you could ask the client further questions.

**Questions should be general and inconspicuous** so as not to tip the client off that you may be suspicious and considering reporting the transaction.



## KYC Factor #1: Normal Business Activities

### Scenario:

A local Realtor opened up a working agreement with a walk-in client named Ivan Morris, to assist him in funding and purchasing some commercial properties.

Two days after the agreement was signed, Mr. Morris has the Realtor put in an offer on a small apartment complex listed for \$500,000.

As a deposit on the offer, Mr. Morris gave the Realtor five separate bank drafts drawn on five different banks totaling \$75,000.00.

**What questions could you ask in this scenario to find out more about this unusual financial transaction?**

## KYC Factor #1: Normal Business Activities

### Example of a probing question you could ask:

*“Mr. Morris I notice these five bank drafts are from different institutions, would it not be easier to consolidate your deposit into one draft?”*

**Explanation** The use of five bank drafts from five different banks is not a common practice for real estate salespersons’ who have opened up working agreements with new, walk-in clients.

Money launderers will usually have many accounts with many institutions and often use funds from several of them at the same time to make an audit trail difficult to follow. This example is a good indicator of possible money laundering.

## KYC Factor #2: Financial History

### Scenario:

Your client has used your services to assist her in buying and selling residential property for the past 20 years. During that time she has bought and sold a total of five properties.

Each purchase of the five properties involved a deposit on the offer of 5% of the proposed purchase price paid by way of a personal cheque drawn on her Canadian bank.

She has now found a new property and asks the Realtor to represent her again and together they put an offer to purchase together. This time however, the client provides the Realtor a deposit involving \$7,000 in cash and a wire transfer into the Realtor's account from a U.S. bank for \$40,000.

**Based on what you know about your client's previous deposit practices, what probing questions could you ask in this scenario to find out more about her method of making a deposit?**



## KYC Factor #2: Financial History

### Example of a probing question you could ask:

*“Joan this is a sizeable deposit, but you have never used cash plus a wire transfer before. Are you diversifying your sources of income these days?”*

**Explanation** In this situation, Joan’s increase in available funds for the purchase could very well be legitimate. However, if what you know about Joan herself and her past approach to making a deposit on the offer, this new combination of payments does raise a suspicious red flag as to the source of the these funds. Further due diligence is warranted.

## KYC Factor #3: General Background

### Scenario:

A Realtor is contacted by a local law firm on behalf of a client who currently resides in Bermuda. The client is a former resident of Canada who has since moved to Bermuda but maintains a home in Canada.

The realtor is asked by the law firm to represent their client (in Bermuda) in the sale of his residence in a nearby neighbourhood to the real estate office. The Realtor agrees and meets with the client's lawyer to gather particulars about the residence.

At this meeting, the lawyer provides the Realtor all of the required information about the residence, which is registered to a numbered company, but no specifics about the client. The lawyer did confirm however that she possessed the power to manage all issues regarding the sale.

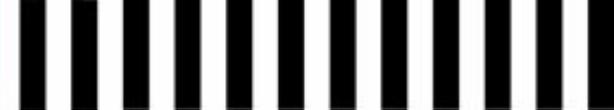
**What probing questions might you ask in this scenario about the invisible client?**

## KYC Factor #3: General Background

### Example of a probing comment you could ask:

*“I realize it is not uncommon for third parties to act on behalf of someone else in a sale of property, however, it seems somewhat strange that you have not told me the name of your client?”*

**Explanation** Money launderers like to use nominees to undertake business deals through to their completion and therefore avoid attention drawn to them personally. Criminals use the costs associated with such third-parties as simply the price of ensuring their anonymity.



## KYC Factor #4: Behaviour

### Scenario:

A small town Broker in a popular holiday resort community has developed a very profitable property management side of his business, handling a significant number of cottage properties for non-resident owners.

Recently, the Broker added five cottages to his portfolio which were owned by an individual living in the southern USA as an investment. All five cottages had been expensively remodeled over the past winter season for which it was well known in the community that the contractors were paid for these materials with US currency.

**What questions could the broker ask his new client based on the suspicious nature of such large renovation bills all being paid for in cash?**

## KYC Factor #4: Behaviour

**Example of some probing questions you could ask:**

*“Paying in cash doesn’t provide you with the invoices needed on your investments, aren’t these renovations subject to tax write-off in the US?”*

*“Don’t you have tax liabilities in Canada? All this cash might cause you problems.”*

**Explanation:** Hiding an audit trail is critical to a money launderer; consequently, not having receipts for materials or labour is important and more valuable than possible tax write-offs.



## I'm done Module 5, what do I do now?

**Congratulations!** You have now completed all the modules in this AML/CTF training course!

Feel free to go back and review any of the modules if you feel you need to refresh some of the information.

Note that the material contained in each module of this course is reviewed and updated on a regular basis.