

Mastering Money Podcast

Season 9 – Dark side of money

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S9 E01: Money Laundering – The Hidden Trail

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DORETTA THOMPSON

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Hi, you're listening to Mastering Money, where we explore the many aspects of good financial decision-making. I'm Doretta Thompson, financial literacy leader for Chartered Professional Accountants of Canada. We provide no cost programs and free online resources that help Canadians own their finances and learn the language of money.

This season, we're looking at the dark side of money. We'll be diving into hot button topics like how romance scams target vulnerable people, how we can protect ourselves and deal with the aftermath of robbery with the sharp increase in street crimes to the fraudulent property sales that jeopardize our homes.

Today, we're discussing money laundering, examining the process of money laundering, its illicit origins, its impact on the global economy and on businesses and individuals. And we're also looking at the role of governmental and financial organizations in detecting and preventing money

laundering. My guests are Terence Karacsony, CPA, senior manager in the Winnipeg office of MNP LLP and Sarah Mulhall, the director of regulatory affairs and public interest here CPA Canada. Terence and Sarah, welcome to Mastering Money.

SARAH MULHALL

00:01:25.47

Thank you for having us, Doretta.

DORETTA THOMPSON

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So before we begin, Terence, let's start with you. Can you tell us just a little bit about yourself and the work you do at MNP.

TERENCE KARACSONY

00:01:34.20

Absolutely. First off, I'd like to, again, thank you for having me on the show. I'm a senior manager in the valuation forensics and litigation support area in Winnipeg and that work is very broad. It takes me into a lot of areas and ranging from money laundering compliance for financial institutions, family law engagements, as well as determining valuation for estate purposes.

DORETTA THOMPSON

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And Sarah, what about you? Tell us a bit about yourself and what you're doing here CPA Canada.

SARAH MULHALL

00:02:04.28

Hi, Doretta. Again, thank you for having me here today. Hello, everyone. I am the director of regulatory affairs and public interest here at CPA Canada. I am responsible for overseeing the development of relevant anti-money laundering and anti-terrorist financing research and guidance, benefiting members in professional practice and industry, and I also serve on Finance Canada's Advisory Committee on money laundering and terrorist financing, private public sector working groups with respect to legislation, regulation, guidance, and policy interpretations.

DORETTA THOMPSON

00:02:37.04

And so who better than the two of you to help us understand a little bit more about money laundering? So first of all, Terence, let's start with you. When you say money laundering, I think some people think about things like the mafia laundering cash through, wasn't it dry cleaners or bakeries that was supposed to be the big thing. What does money laundering mean today? And can you give us some examples of how it gets done?

TERENCE KARACSONY

00:03:01.21

Yeah, absolutely. I think the easiest way to explain money laundering is through a little bit of a three stage approach. The first stage being, well, what is the process of introducing the legal money into the financial system? And that's really the first stage. It's called placement. As you mentioned, it could be anything of depositing small amounts of money into bank accounts to avoid detection, investing this illegal money in cash intensive businesses such as laundromats, car washes, retail outlets.

The second stage to the money laundering involves more of the disguising of the origin. This is often through complex transaction and accounting tricks. Well, what does this look like? It looks like purchasing and selling assets such as real estate, stocks, creating fictitious invoices or contracts to justify the movement of money laundering as legitimate business transactions, even exchanging illegal money for different currencies or investments. Those are all types of layering.

Now, the last stage is integration. So this is usually the final stage where this really looks like where the money is cleaned to reintegrate into the economy. So what are some examples of this? This could be setting up trust funds or saving accounts with the laundered money, donating to charities or maybe even sponsoring an event to give money laundering, illegitimate appearance. It could also even be buying properties, luxury goods in the criminal's name.

DORETTA THOMPSON

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So just exploring that a little bit further, how have you seen that evolution of how anti-money laundering has come to address these things?

TERENCE KARACSONY

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Yeah, I think what has evolved in money laundering specifically is it really started going away from the traditional methods, which did include things like Casino, real estate transactions and other cash intensive businesses.

And now with the globalized economy, global trade and finance and offshore banking, it's really expanded the use of international wire transfers making it harder to trace the illicit funds. The advancement of technology related to things like cryptocurrencies, Bitcoin presented a significant shift offering additional concealment to move these funds across borders without traditional banking systems.

And of course, there's also increased regulation as a result of that as we're going to talk about a little later, but those are some evolutionary topics that we've seen. And so we're in the future outlook looks is that it just continues to be an evolving landscape through the advancement of technology and the global connections that the banks and financial institutions have.

DORETTA THOMPSON

00:05:39.16

Right. If we put a pin for a second in the regulatory thing because Sarah will get right to that in a minute. But Terence, I'd just like to ask a little bit more about that in particular, you're talking about wire transfers and also crypto, the movement of these illicitly gained funds around. And of course, we've just been through the big Sam Bankman-Fried trial and stuff like that, the fraud that was involved there. How do you see crypto and AI in general really pushing the landscape for money laundering?

TERENCE KARACSONY

00:06:12.29

I see artificial intelligence as a tool to combat money laundering. I think if anything artificial intelligence will enhance the efficiency of anti-money laundering systems for analyzing large data sets among the financial institutions, I think we're seeing it now through the use of AI can reduce things like false positives in money laundering alerts, improve accuracy of detections.

It can uncover probably complex money laundering schemes involving multiple international transactions through its use of algorithms. Those are some things I see that artificial intelligence specifically could combat against.

DORETTA THOMPSON

00:06:52.94

Interesting. That is really interesting. OK, so Sarah, what is the legislation in Canada that governs money laundering and also you talked about terrorist activity financing.

SARAH MULHALL

00:07:04.50

Yeah, so the AML/ATF regime is in place to protect the safety of Canadians and the security of Canada's economy. So legislation that protects Canada from money laundering and terrorist financing to counter illicit activities is called the Proceeds of Crime Money Laundering and Terrorist Financing Act, also known as PCMLTFA for short and yes, it is quite a mouthful. So I'll just refer to it as the act and its associated regulations.

So what it does is it stipulates the persons and entities that are subject to its legislative framework. So most notably our financial institutions, designated non-financial businesses and professions such as accountants, CPAs. So these entities are known as reporting entities under the regime. And compliance with the act helps to prevent, deter criminals from using Canada's economy to launder the proceeds of their crimes or their financed terrorist activities.

So these persons or businesses known as reporting entities must fulfill specific obligations under the act such as reporting, record keeping, client due diligence, and there are over 24,000 reporting entities in Canada. So you can imagine how much financial intelligence gets sent on a daily basis to the government on potential suspicious transactions.

So these entities play a critical frontline role in these efforts to prevent and detect money laundering and terrorist financing. And to understand the magnitude and the complexity of this collaborative effort, coordination across all levels of government, the public and private sectors and international borders is required. , And as such this regime is operated by 13 federal departments and agencies in addition to provincial and municipal law enforcement agencies, as well as regulators.

And as we move on to regulators, one in particular is FINTRAC. So FINTRAC is Canada's financial intelligence unit and AML/ATF supervisor. I'm sure many listeners have heard of FINTRAC, probably don't know what it stands for. It stands for the Financial Transaction and Reports Analysis Center of Canada.

So as the supervisor of AML/ATF, the center helps to combat money laundering, terrorist financing activity, and threats to the security of Canada by facilitating the detection, prevention, and deterrence of money laundering and financing of terrorist activities. And also while ensuring the protection of personal information under its control because you can imagine how much information it gets on individual account holders, for instance, at a bank.

The center works with businesses to help them understand and comply with their obligations under the act, and the financial intelligence that the center receives from these businesses and individuals is critical to law enforcement and national security investigations. And that even includes international securities investigations.

DORETTA THOMPSON

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So it sounds like a huge amount of information, a very large number of individuals, businesses responsible for playing that oversight role gathering that information submitting it to the government. And then you have the monumental task of sifting through it all for particular patterns or signs or signals of things that are going awry. Is that kind of how it works?

SARAH MULHALL

00:10:24.47

That is correct. And what Terence mentioned earlier in terms of AI and those are some of the things that FINTRAC as part of their technological modernization is going to be utilizing going forward because of the amount of volume of transactions it receives on a daily basis from all its reporting entities. And this information is key.

According to their recently issued annual report, a wide variety of money laundering investigations were linked to drug trafficking, fraud, human smuggling and trafficking, tax evasion, and other criminal offenses. So it's really important that good quality information is detected through this process.

DORETTA THOMPSON

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But so basically the goal of the act is to protect the economy from illicitly gained funds being snow washed in such a way that they then become integrated into the mainstream economy. The reason is that we don't want that to happen is that it undermines everything government revenue.

It undermines faith in the system. It legitimizes and then those funds get used for very dangerous things like terrorist financing, et cetera. Terrence, can you give us some examples of the kinds of methods of money laundering and terrorist financing that people should be aware of and how FINTRAC's really partnering with the public and the private sectors to really make serious headway here?

TERENCE KARACSONY

00:11:50.52

Yeah, I think the first and foremost slogan to this message is just to stay curious, stay alert, and really stop money laundering and its tracks from that perspective and following the money. And what I mean by that is it's really about utilizing that professional skepticism on the source and use of funds, understanding that this isn't in isolation affecting one industry or the other. This is affecting the entire economy.

And with the advancement of technology that we cited, it's really a lot more complex than the traditional methods we talked about earlier on in the show and areas in relation to even the COVID-19 pandemic created some really unique opportunities for fraudsters, so to speak.

Everything from unemployment relief fund scams where there were instances of fraud with fake applications for unemployment benefits, and those illicitly obtained funds would then be laundered through bank accounts or digital payment systems to even health care and insurance fraud where fraudulent claims for health care services and COVID-19 test treatments for never provided.

And those funds from insurance companies were obviously laundered. And so it's an evolving landscape, and I'm hoping through the use of this podcast that we bring public awareness to the general audience on this from that perspective.

DORETTA THOMPSON

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Great. And from that perspective of the general public, I mean, you said something a few minutes ago that I thought was really interesting, which it's that sense of being aware and being critical, being curious. What would a member of the general public do if they were very suspicious about the source of funds and something that they would come up against?

TERENCE KARACSONY

00:13:37.25

Yeah, I would say we have some interesting links and details at the end of this podcast that they can navigate to, but it's not being afraid to ask the more difficult questions. At the end of the day, it's really utilizing that professional skepticism and striking home that message. You've seen it everywhere from cryptocurrency charitable donations, as I mentioned earlier in relation to the health care and insurance fraud that it's not going to be limited to one industry or one type of transaction and it's really up to the individual on a micro level to stop it in its tracks.

DORETTA THOMPSON

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So Sarah, can you give us a sense of just how big is the impact and do we think — I mean, obviously, a lot of this stuff is hidden. But how big do we think the impact is of money laundering and terrorist financing on the Canadian economy?

SARAH MULHALL

00:14:24.13

This is where it gets complex and obviously, Terrance can probably attest to this. Putting a number on the amount of money laundering in Canada has proven difficult because of the nature of the secrecy of the activity. Tracking the money trail is time-consuming, it's highly complex. You need specialized skills such as a forensic accountant, and then you need to counter criminals use of advanced technologies as well. So it is quite complex.

I did come across a 2021 report by global financial integrity and they estimated that during the period of 2015 to 2020, \$859 million was laundered in Canada and it was invested in real estate. And of this money that was invested in real estate, half came from drug trafficking.

DORETTA THOMPSON

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Wow.

SARAH MULHALL

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So on a global basis, again, another recent stat I found — the latest I found was 2020. This was from the UN's Department of Economic and Social Affairs. They estimated that money laundered globally was \$1.6 trillion and that accounted for almost 3% of global GDP. So again, it's been very difficult to estimate how much money is laundered in Canada. I've heard figures from \$45 to about \$113 billion Canadian.

DORETTA THOMPSON

00:15:41.18

So that really gives us a sense of just why we should care about this.

SARAH MULHALL

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Yes, it's a very important topic that everyone should pay attention and listen to for sure.

DORETTA THOMPSON

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It's interesting in our own fraud study and the sessions that we do on fraud for seniors. It really is alarming the impacts of this.

SARAH MULHALL

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And the impacts, we've got social, we've got economic, we've got political. But the social ones are the ones that really hit home, and I think that's where you pretty much be able to connect to it. I think the average person would connect to it instead of seeing it as a financial transaction, they see the human element of it. And the human element is — like the biggest one is human trafficking for sexual exploitation.

Traffickers are targeting Canada's most vulnerable citizens with the majority of victims being women under the age of 25 and some even minors. So when you think of it that way and the societal consequences, the emotional trauma, the physical violence. And then obviously, you've got everything else that impacts the economy as well, which is it distorts market prices. It creates unfair competition and damages the reputation of our financial sector.

And then we get into political and you look at our international cloud as well, it leads to the erosion of public institutions and the rule of law. It lowers government revenues and creates a loss of credibility and influence internationally.

DORETTA THOMPSON

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So I think what a lot of our listeners may be aware of is that last year, there was a report that was issued about money laundering in British Columbia and I know the CPA profession was involved in those hearings, et cetera. It was the three-year public inquiry.

SARAH MULHALL

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Yes, correct.

DORETTA THOMPSON

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And it was around certain industries in British Columbia and the kind of regulatory tightening I guess that needs to occur at the federal level. And I think also Canada had a bit of a reputation for being kind of loose in its controls that were being exploited, I think.

SARAH MULHALL

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And that is correct and that was actually even leading up to the commission and BC, which related to British Columbia. But yes, there has been some recent headlines on the results of international peer reviews, reports, inquiries that did not paint Canada in the best light in that area. And you may even heard of the term snow washing. And it has been used to describe the laundering of dirty money through Canada's financial system.

And even the US State Department described Canada as a major money laundering country in its 2019 report. However, in response to this criticism on Canada's measures to tackle money laundering and terrorist financing, the federal government has taken a range of legislative and regulatory changes in recent years to improve AML efforts and its ability to protect the safety and security of Canadians, as well as the integrity of our economy and financial system.

DORETTA THOMPSON

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So we talked about that inquiry in BC and it really was pretty clear about the tightening that had to happen. So can you tell us a little bit about some of the things the government is doing to strengthen that regime in Canada and are we doing enough?

SARAH MULHALL

00:18:42.90

We could always do more, but we've definitely have done a lot. I would say probably since 2018. We had a lot of legislative changes in 2019, still more to come. Some of the key ones include responding to higher risk areas like new money laundering and terrorist financing risks posed by certain sectors such as virtual asset service providers, foreign money service businesses, crowdfunding platforms, mortgage lending entities, even armored car companies.

DORETTA THOMPSON

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Wow. Armored car companies? Like, tell me a bit more about that.

SARAH MULHALL

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Well, again, it has to do whenever there's some sort of transaction involving cash or virtual currency. So again, it's another area that can be utilized for nefarious purposes. So car companies now have to be registered with FINTRAC as well.

DORETTA THOMPSON

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Interesting.

SARAH MULHALL

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Another important one the government has implemented sanctions against Russian individuals and entities over international security concerns posed by Russia's illegal invasion of Ukraine.

DORETTA THOMPSON

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Are these areas that Canada was recognized as being weaken? Is that why these areas have been the object of specific requirement changes?

SARAH MULHALL

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Either weaken, either log in internationally, either new or evolving new risks and indicators and trying to keep pace with that, I would say.

DORETTA THOMPSON

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Anything else you want to add to that?

SARAH MULHALL

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There were other things that were added even amendments to the criminal code to add the fault of recklessness to the money laundering offense. So an individual may be considered reckless where they are aware of a risk that the property may be proceeds of crime. But in the face of that risk still continue to carry out the prohibited activity. So that's an example, too. And other enhancements are happening as well to the criminal code in that area.

There are enhancements where FINTRAC now can share financial intelligence with certain other federal partners and increase criminal penalties as well. And one of the bigger ones was reforms to bring about greater corporate transparency requiring federally regulated companies to disclose information about who their beneficial owners are and those owners that are individuals with significant control over the entity.

DORETTA THOMPSON

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I think we've all seen some of that in the news and the headlines too about that kind of transparency and how important it is. Terence, if I could ask you from your perspective of being sort of on the ground hunting this stuff down. Why is it important and why do we care?

TERENCE KARACSONY

00:21:12.33

Well, from my perspective, it's more along the lines of it builds trust in the economy at the end of the day. We have to care as members of society that contribute economically to Canada as a whole, it's important that we bring this awareness to the audience and really act vigilant.

It's just as important for me to detect it as it is to encourage public awareness campaigns to educate and strengthen international cooperation and information sharing across these money laundering activities to highlight these facts because it's not going to go away, and it's just an evolving field.

DORETTA THOMPSON

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Are you seeing any kind of differences, the changes that the government is making, the new legislation, the results of the BC inquiry. Are you getting a sense of their impact yet or is it too early to tell?

TERENCE KARACSONY

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I think we're definitely seeing it. I mean, even just alone from the financial institution compliance side to major financial institutions were named for their compliance procedures being maybe up to date some ranging as high as almost \$7.5 million for one institution. So yeah, we are seeing the trickle down effect, so to speak.

DORETTA THOMPSON

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And Sarah from your perspective as part of CPA Canada's commitment in serving the public interest, how CPA Canada is supporting the federal government efforts to strengthen the regime?

SARAH MULHALL

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So on behalf of the profession and in the public interest, CPA Canada does engage with the federal government and efforts to strengthen Canada's AML regime. So whenever there is a public consultation on any changes in legislation, CPA Canada has responded. We also participate on the department of finance's AML/ATF committee and their subcommittees and those subcommittees include upcoming changes to legislation and policy and guidance.

So we do have a seat at the table. We do have a voice. Our participation is encouraged and it's happily received as well, and we obviously receive input from members as well to ensure that the regulatory burden is not so on our members that it ends up outweighing the costs of the benefits obviously of the regime.

DORETTA THOMPSON

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Our members really are in the front line.

SARAH MULHALL

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They are, and we support our members too. We support our practitioners and our accounting firms who are reporting entities under the regime and have obligations. So we have a whole plethora of resources and webinars and training, and we do our best to keep that up to date based on any upcoming regulatory and legislative changes that are coming.

DORETTA THOMPSON

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And I would remind our listeners that you'll be able to find links to all of these resources in the podcast notes. You can follow-up with them there. And Sarah, what are the three things we should take away and really understand about the legislation?

SARAH MULHALL

00:24:01.33

Well, the legislation is in place to protect the safety of Canadians and the security of Canada's economy. It helps to prevent, detect, and deter criminals from using Canada's economy to launder the proceeds of their crimes or to finance their terrorist activities.

DORETTA THOMPSON

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But it's something that I read that really brought it home to me — fake purses. The whole thing was go to New York, go to Canal Street and get yourself a fake designer purse. It doesn't hurt anybody, right? Well, we know that isn't true. Who is doing most of these things and where is that money going? Those are the questions you need to ask yourself. And a lot of that money is actually going for terrorist financing.

SARAH MULHALL

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And that's what happens. If you keep on supporting those economies where, again, you think it's a victimless crime, big deal. It's just a knockoff purse. But you continue to support reward and perpetrate broader criminal activity without really knowing how that money is being used because it's going to be channeled to further other criminal activity.

If you look at some of the offenses that are associated with money laundering, the top five, which FINTRAC recently put out in their annual report are fraud, crimes against persons, human smuggling and trafficking, tax evasion, and number one was drugs. So those are pretty serious crimes.

DORETTA THOMPSON

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Absolutely. And that's why people should care. And Terence.

TERENCE KARACSONY

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I'm going to try to explain this like I explain this to my son to say you have a group of like individuals who sell these drugs and they're bad for you and kids don't know they're bad and we all know they're bad, but they make a lot of money from this, and they really can't just put this money in the bank.

You have to spend it on some stuff, right? So what are they going to buy? They're going to buy that nice fancy car. They're going to buy that big thing like a house, a car because people are going to ask, where is this going to come from? What they really want to try to do is they really want to hide where this money came from. That's essentially part of this criminal activity.

So they put this money through different businesses to make it look like it looks normal. Car wash, restaurant, this is where they're making that dirty money look clean like it was legally made. That's why it's not a victimless crime because the money they're laundering comes from selling the legal drugs, can hurt people who use them. And I think it can make them sick, it can hurt their families, it can even lead to ultimately death among the population in Canada. So that's another way I would look at it in terms of money laundering.

DORETTA THOMPSON

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That's a really great example. Thank you. Sarah, is there anything I haven't asked you that you would like to bring up?

SARAH MULHALL

00:26:43.95

I would say is just to remind listeners that money laundering is not a victimless crime. Canadians and businesses need to realize the harms that money laundering has on society. Everyone needs to do their part, and there is a way to do your part as well. If you are not a reporting entity FINTRAC, you actually can volunteer information confidentially on their website if you do have any suspicions on a particular business or individuals.

And businesses must understand the risks and vulnerabilities to which they are exposed. That is the ways in which their products and services can be used to launder the proceeds of crime or finance terrorism.

DORETTA THOMPSON

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And Terence, any other thoughts? Things that you'd like to draw our attention to.

TERENCE KARACSONY

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I would say just staying proactive and vigilant is a key towards this financial oversight and combating against money laundering. It's an essential fight. Stay vigilant, curious. And from those activities or those reporting measures that will be available at the end of the show, that's going to help uncover identifying halt these illicit financial activities and safeguard, essentially the integrity of our financial systems and Canada as a whole.

DORETTA THOMPSON

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Very important message.

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