



Government
of Canada

Gouvernement
du Canada

5005



FINTRAC ANNUAL REPORT 2004



Financial Transactions and
Reports Analysis Centre of Canada

Canada





Financial Transactions and
Reports Analysis
Centre of Canada

Centre d'analyse des
opérations et déclarations
financières du Canada

Ottawa, Canada K1P 1H7

Office of the Director

Cabinet du directeur

September 16, 2004

The Honourable Ralph E. Goodale, P.C., M.P.
Minister of Finance
L'Esplanade Laurier
140 O'Connor Street
21st Floor, East Tower
Ottawa, Ontario
K1A 0G5

Dear Minister:

Pursuant to Section 71(1) of the Proceeds of Crime (*Money Laundering*) and *Terrorist Financing Act*, I am pleased to present you with the third Annual Report for the Financial Transactions and Reports Analysis Centre of Canada. Covering the period from April 1, 2003 to March 31, 2004, this report details our activities and our achievements in carrying out FINTRAC's mandate to detect and deter money laundering and terrorist activity financing.

The Centre looks forward to continuing to deliver the high-quality financial intelligence that is its chief contribution to the fight against organized crime and terrorism.

Yours sincerely,

Horst Intscher
Director

FD1-2004
0-662-68232-7

MAKING A DIFFERENCE
HIGH-QUALITY FINANCIAL INTELLIGENCE

2004

FINTRAC

ANNUAL REPORT

O V E R V I E W

FINTRAC is Canada's financial intelligence unit (FIU), an independent agency that plays a unique role in fighting organized crime and terrorism. Created in 2000, it reports to Parliament through the Minister of Finance.

FINTRAC's core product is financial intelligence – case-specific information on financial transactions that are suspected of being related to money laundering and/or terrorist financing activity. This intelligence is the end result of analyzing the millions of financial transaction reports that FINTRAC is legislated to receive from financial institutions and intermediaries, such as banks, casinos and securities dealers, which, for ease of reference, are often referred to as reporting entities. (For a description of our business process, including the list of reporting entities, see page 36.)

When there are reasonable grounds to suspect that the financial transactions would be relevant to an investigation or prosecution of a money laundering or terrorist activity financing offence or threats to the security of Canada, FINTRAC provides the financial intelligence – by what is called a case disclosure – to the appropriate law-enforcement, intelligence or other designated agencies.

Ensuring that reporting entities comply with legislative obligations set down in the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (PCMLTFA) is another component of the Centre's mandate, as is enhancing public awareness of money laundering and terrorist activity financing.

FINTRAC may provide and receive information from foreign FIUs with which it has a Memorandum of Understanding (MOU), and it participates in international bodies concerned with anti-money laundering and anti-terrorist financing. The Centre is an active member of the Egmont Group, an international forum for cooperation and information exchange among FIUs.

To protect the privacy rights of Canadians, FINTRAC is required to operate at arm's length from all domestic and international organizations to which it provides case disclosures. Protecting the personal information under its control guides every aspect of the Centre's operations.

FINTRAC's vision is to be a leader in providing timely and high-quality financial intelligence in the global fight against money laundering and terrorist activity financing, thereby contributing to public safety in Canada and worldwide.

CONTACT INFORMATION

FINTRAC
24th Floor, 234 Laurier Avenue West
Ottawa, Ontario K1P 1H7
Canada

Tel: 1-866-346-8722 (toll free)

Fax: (613) 943-7931

Email: guidelines@fintrac.gc.ca

Visit FINTRAC's website at <http://www.fintrac.gc.ca>



C O N T E N T S

MESSAGE FROM THE DIRECTOR	2
THE YEAR IN REVIEW	4
2003-2004: MAKING A DIFFERENCE	6
Delivering Timely and High-Quality Financial Intelligence	6
Working with Reporting Entities to Ensure Compliance with the Law	11
Producing and Sharing Strategic Information	15
Our Organization	17
Protecting Personal Information	18
2004-2005 PRIORITIES: BUILDING ON STRENGTHS	20
Deliver Timely and High-Quality Financial Intelligence	21
Strengthen the Risk-Based Compliance Program	21
Disseminate Strategic Information	22
APPENDIX 1 – FINTRAC’S FINANCIAL STATEMENTS	23
APPENDIX 2 – GLOSSARY OF TERMS AND ACRONYMS	33

M E S S A G E

F R O M T H E D I R E C T O R

Although still a young agency with a great deal to achieve, we are proud of our accomplishments to date. The past year has been one of significant advance and achievement.

All of the reporting streams mandated by our legislation have been in force for a full year. Our access to secondary information sources and databases has been expanded, and through experience and technological enhancements our analytic capacity has matured and become more sophisticated. The result: our output of disclosures of suspected money laundering or terrorism financing has doubled over the previous year, reaching 197 case disclosures involving transactions valued at some \$700 million. In just over two years of being operational we have made disclosures on suspected money laundering and terrorism financing activity totaling nearly \$1.2 billion.

During this past year, we also implemented the next phase of our risk-based compliance program, commencing on-site compliance examinations of reporting entities. These compliance initiatives, including outreach, information and training sessions, quality assurance initiatives, targeted self-assessments, as well as examinations, greatly contribute to the amount and quality of transaction data reported to FINTRAC and help ensure that reporting entities meet their record-keeping and reporting obligations. Taken

together, these measures and the diligent efforts of thousands of reporting entities help make the Canadian financial system increasingly hostile to money laundering and terrorism financing.

Money laundering and terrorism financing are transnational in character, and international collaboration is an essential ingredient of any country's efforts to curb those activities. FINTRAC has continued to play an active role internationally, and continues to expand its network of arrangements to facilitate information exchange with financial intelligence units in other countries as a means of enhancing our access to relevant transaction information in other countries. Canada has become recognized internationally as a leader in the fight against money laundering and terrorism financing, and during the past year FINTRAC was elected to the steering committee of the Egmont Group, an international association of financial intelligence units whose membership includes nearly 100 FIUs around the globe.

Looking ahead to the coming year, we plan to concentrate on refining and expanding our use of the best technologies available to continue to improve our output of financial intelligence and enhance our compliance capabilities.

Our future plans, like our past accomplishments, will be realized through the skill and dedication of FINTRAC's workforce, and I would

like to take this opportunity to thank the Centre's employees for their unfailing effort and their commitment to excellence.

Finally, I would like to express my great appreciation for the support FINTRAC has received from its partners in the financial sector, as well as from law enforcement and national security agencies. Without their valuable contributions, our successes would not have been possible.

A handwritten signature in black ink, appearing to read "Horst Intscher". The signature is fluid and cursive, with a long horizontal stroke at the end.

Horst Intscher
Director

THE YEAR IN REVIEW

Money laundering and terrorist activity financing largely depend on moving funds in a manner that is intricate enough to be difficult to trace. It is FINTRAC's unique ability to link much of this illicit funds activity that enables the Centre to provide a rich source of intelligence for law enforcement and security agencies.

During 2003 – 04, FINTRAC attained new goals as well as building on previous accomplishments. This was the first full twelve-month period in which all of the various reporting requirements were fully operational. As a result, there was a significant increase in both the number and the quality of our case disclosures. We held our first on-site compliance examinations, and made our first feedback presentations to reporting entities. We used data-mining techniques that provided support for strategic analysis. Our ever improving analytical expertise in financial intelligence analysis bolstered our capacity for strategic-level analysis that identifies broad patterns and typologies of money laundering and terrorist activity financing.

FINTRAC's information holdings grew exponentially in 2003 – 04. Approximately 9.5 million reports were received during the year (virtually one hundred per cent of these electronically), a huge jump from the previous year's reporting levels of just over 2 million. A growing body of information was provided voluntarily by other sources, in particular domestic law enforcement, CSIS and foreign financial intelligence units. It was this vast and rich array of data, as well as the most modern technological tools,

that enabled our analysts to apply their knowledge and experience to the best advantage.

The benefit to law enforcement agencies and CSIS has been disclosures of greater scope and complexity than ever before. In 2003 – 04, our total case disclosures involved over 12,800 financial transactions valued at approximately \$700 million. We made 197 case disclosures, of which 160 were new cases of suspected money laundering, terrorist financing and other threats to the security of Canada, and 37 were updates on cases that had been the subject of previous disclosures.

Enforcement and intelligence officials, largely because of FINTRAC's continuing outreach efforts, are increasingly aware of the value of our unique brand of intelligence to their investigations and prosecutions. These officials, and the agencies they represent, provide valuable feedback to FINTRAC, comments that assist analysts in continuously improving and refining their case disclosures, thus enhancing both the relevance and worth of the intelligence. This feedback also indicates that enforcement bodies are using our case disclosures to augment their existing intelligence holdings, to bolster ongoing investigations and, when resources permit, to launch new investigations.

Because the quality of our analysis hinges directly on the quality of the financial information we receive, we continue to give priority to developing and maintaining sound and cooperative working relationships with all our financial reporting entities.

To this end, we established a comprehensive program to monitor compliance with the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*. An important success story of the past year is the institution of internal regimes that are compliant with the Act by Canada's banks, financial institutions and other entities.

The protection of the personal information entrusted to it is one of the most serious of FINTRAC's obligations. The Centre ensured that its premises and its computer-held information were safeguarded, not only by the use of advanced security technologies, but also by rigorous employee training and round-the-clock surveillance.

Throughout the year, to ensure our continued high performance levels, we have reinforced our organization in areas such as planning and resource management, workforce recruitment, training and development.

This report details the Centre's achievements in 2003 - 2004 and outlines its plans for the year ahead. FINTRAC's results, and those of its many partners, are proof of Canada's determination to create an environment that is hostile to money laundering and terrorist activity financing.

FINTRAC'S ACHIEVEMENTS IN 2003-2004 REFLECTED ITS THREE KEY PRIORITIES:

1. *Deliver high-quality financial intelligence to law enforcement and intelligence agencies:* timely and high-quality financial intelligence analysis and case disclosures that are widely accepted and used by law enforcement and intelligence agencies.
2. *Establish a comprehensive risk-based compliance program:* a cooperative program that enhances compliance by reporting entities, resulting in higher levels and quality of reporting and appropriate record keeping and client identification practices.
3. *Provide partners with strategic information on money laundering and terrorist financing:* strategic intelligence, advice and analysis that enhance awareness and understanding of money laundering and terrorist financing and inform the development of effective counter-strategies.

2 0 0 3 - 2 0 0 4

M A K I N G A D I F F E R E N C E

DELIVERING TIMELY AND HIGH-QUALITY FINANCIAL INTELLIGENCE

Our mission is to deliver timely and high-quality financial intelligence. To achieve this, the Centre applies a combination of knowledge, analytical expertise and advanced technology to the steady stream of financial transactions and additional information provided by reporting entities and others.

With its centralized capacity to collect and analyze millions of financial transaction reports, FINTRAC can detect patterns of suspicious activity that no single

reporting entity, or sector of reporting entities, could hope to uncover on its own. The receipt of financial transaction reports from the broad spectrum of reporting entities allows us to find the threads linking diverse and seemingly unrelated financial activities occurring in different locations and sectors. As a result, we can track the movement of suspected illicit funds.

The financial intelligence we produce therefore represents a unique contribution to the investigation of suspected money laundering and terrorist financing activities, and our output in 2003-04 reflects the growing significance of that contribution.

EXAMPLES OF MONEY LAUNDERING TECHNIQUES

Criminals use money laundering to make their profits appear legitimate. Here are two examples of money laundering techniques that are commonly used:

- **Commingling** – A financial institution files a number of suspicious transaction reports on several individuals that have recently purchased a small “cash intensive” business. Over a period of one year the institution notices that cash deposits have steadily increased to a level far in excess of what would be expected for that type of business. The large cash deposits consist of mostly \$20 bills, which is unusual as most small businesses deposit a variety of small bill denominations. These individuals are suspected of mingling the profits derived from crime with the legitimate sales of the small business in an effort to disguise their illegal activity and launder the proceeds of crime.
- **Layering** – A financial institution files a suspicious transaction report on unusual activity by an individual who receives frequent wire transfers from abroad and immediately purchases bank drafts payable to a third party. These bank drafts are then deposited into an account at a different financial institution. Then another financial institution reports that this same individual is depositing large amounts of cash and attempting to pay a mortgage in cash. The individual refuses to identify the source of the funds. FINTRAC’s analysis raises suspicions that the individual was receiving the profits from the sale of drugs to parties living in foreign countries.

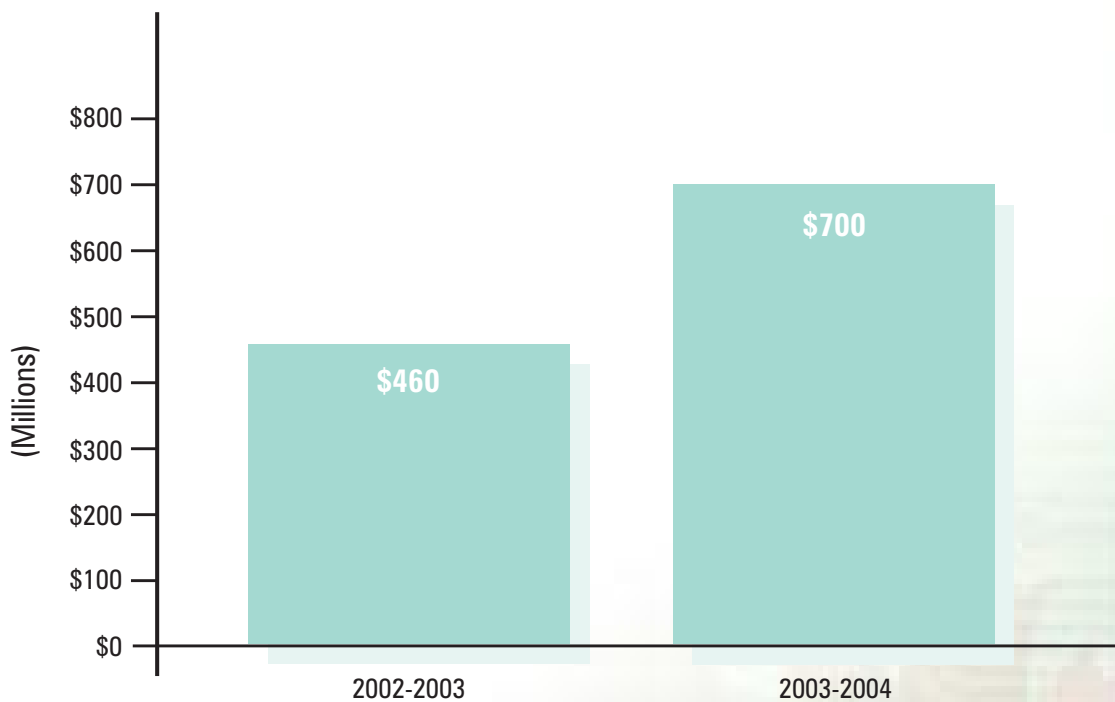
ADDING VALUE TO INVESTIGATIONS – OUR OUTPUT IN 2003-2004

This year, FINTRAC analysts produced 160 new case disclosures and provided updates on 37 cases that had already been disclosed to law enforcement and security agencies. The total dollar value of the case disclosures was approximately \$700 million, up from \$460 million from 2002 - 03. The total value of the transactions included in disclosures of suspected terrorist activity financing and threats to the security of Canada was approximately \$70 million.

There were 197 case disclosures in 2003 - 04:

- 149 were for suspected money laundering, only;
- 44 were related to suspected terrorist activity financing and/or threats to the security of Canada; and
- 4 involved both suspected money laundering and terrorist financing activity or threats to the security of Canada.

Total Value of FINTRAC's Case Disclosures



FINTRAC's case disclosures consist of **designated information**, which identifies individuals or entities and their transactions. It includes any or all of the following:

- Name of person(s) involved in the transaction(s)
- Address of person(s) involved in the transaction(s)
- Date of birth
- Citizenship
- Passport, record of landing or permanent resident card number
- Name and address of company(ies) involved in the transaction(s)
- Name, address and type of business where the transaction(s) occurred
- Date and time of the transaction(s)
- Type and value of the transaction including the amount and type of currency or monetary instruments involved
- Transaction, transit and account number
- Name of importer or exporter, in the case of importation or exportation of currency or monetary instruments

FINTRAC must disclose designated information to the appropriate police force when it has reasonable grounds to suspect that this information would be relevant to the investigation or prosecution of a money laundering or a terrorist activity financing offence. FINTRAC must disclose to CSIS when it has reasonable grounds to suspect the information would be relevant to threats to the security of Canada.

If there are reasonable grounds to suspect money laundering and/or terrorist financing, FINTRAC must also disclose the designated information to:

- The Canada Revenue Agency (CRA), when the information is also determined to be relevant to an offence of evading or attempting to evade federal taxes;
- The Canada Border Services Agency (CBSA), when the information is also determined to be relevant to an offence of evading or attempting to evade federal duties;
- Citizenship and Immigration Canada (CIC) and CBSA, when the intelligence is also determined to be relevant to certain provisions of the *Immigration and Refugee Protection Act*.

FINTRAC may also disclose designated information to foreign financial intelligence units with which it has concluded an agreement providing for the exchange of such information.

If police or CSIS wish to obtain the Centre's full case analysis for the purpose of investigating a money laundering or terrorist activity financing offence, or threats to national security, they must seek a court order.

It is worth looking in more detail at the picture presented by these case disclosures.

The majority of money laundering case disclosures involve 1 or 2 individuals and up to 3 businesses conducting as many as 50 transactions. However, there have been case disclosures involving several dozen individuals and businesses and over 1000 transactions. The average figures for all suspected money laundering case disclosures in 2003-04 were:

Canadian dollar value	\$3 million
Individuals involved	5
Businesses involved	3
Number of transactions	57
Number of reporting entities	3

In 2003-04, the dollar values of FINTRAC's case disclosures related to suspected terrorist activity financing and other threats to the security of Canada were generally lower than those related to money laundering.

The averages for disclosures relating to terrorist activity financing and threats to the security of Canada in 2003-2004 were:

Canadian dollar value	\$1 million
Individuals involved	3
Businesses involved	5
Number of transactions	29
Number of reporting entities	3

THE CORNERSTONES OF OUR ACHIEVEMENT

Our success in producing these disclosures would not have been possible without the progress we have made in three fundamentally important areas of our operations, namely: our analytical capacity, our technology infrastructure, and our domestic and international relationships.

IMPROVING ANALYTICAL CAPACITY

Throughout 2003-04, our analytical capabilities continued to improve and develop. With several years of experience working with reported data, our analysts are now more adept and experienced in financial intelligence analysis. FINTRAC's financial intelligence analysts have the specialized skills needed to analyze millions of transaction reports and detect patterns of financial activity that may be indicative of money laundering or terrorist financing activity.

This expertise, coupled with the continued refinement of our IT tools, has allowed us to achieve a more sophisticated level of analysis in the identification of money laundering and terrorist financing activity. As a result, our analysis, and therefore our disclosures, are uncovering larger and more complex cases.

The reporting of international Electronic Funds Transfers (EFTs) enriches FINTRAC's intelligence with information on the global movements of money -a perspective of particular value in tracing the activities of sophisticated money laundering operations and, in less conspicuous amounts, the trail of terrorist funding. This global view of financial transactions is augmented by the information FINTRAC can receive through information sharing agreements with FIUs in other countries.

ENHANCING TECHNOLOGY

FINTRAC relies heavily on information technology to receive, sort, and distill the millions of financial transaction and other reports received annually. To achieve the level of operational dexterity required to produce useful and timely case disclosures we expended considerable effort in 2003 - 04 to maximize the efficiency, accuracy and security of our data collection and analysis.

To maintain and improve our capability to produce high-quality, timely strategic intelligence we must continually refine our methods. The trickle of reports received when we first opened our doors for business three years ago has become a steady stream. Considerable time and resources were devoted in 2003 - 04 to the examination, planning and initial development requirements for FINTRAC's next generation of IT networks and systems. System upgrades are needed to ensure agency-wide operating effectiveness and efficiency. A focus on obtaining powerful and sophisticated data mining capabilities will increase the reach and depth of our money laundering and terrorist financing detection abilities.

STRENGTHENING RELATIONSHIPS WITHIN CANADA AND ABROAD

The effectiveness of FINTRAC's contribution to the Canadian offensive against money laundering requires strong working relationships with its many partners and stakeholders. As an integral part of a larger national commitment to combat criminal activity, FINTRAC joins forces with a number of federal departments and agencies and with provincial, municipal and international organizations.

Working with Domestic Partners

Over the course of 2003 - 04, we continued to spread the message to Canada's police forces about the value and availability of FINTRAC's case disclosures to support investigations and prosecutions. The Centre's efforts in preparing nearly 200 presentations were rewarded by the attendance of close to 4,000 law-enforcement participants. We created a law enforcement pamphlet and widely distributed a video that details our role and mandate and emphasizes the positive role played by financial intelligence in the fight against organized crime and terrorism.

Our case disclosure recipients have, in turn, provided us with valuable feedback that confirms the growing use of our unique intelligence product in investigations and prosecutions. Enforcement agencies

that have received our case disclosures have told us that they are value-added, providing new information in support of existing investigations and, at times, leading to the initiation of new ones. Just as importantly, however, this feedback allows us continually to evaluate our business processes, practices and products to ensure their maximum effectiveness. For example, to assist law enforcement's use of our intelligence, FINTRAC developed a security-protected electronic disclosure option.

During 2003 - 04, FINTRAC also continued to negotiate access to a number of law-enforcement databases. These are important information sources, as they indicate law enforcement priorities and targets of interest and help inform our analysis.

Building Solid International Relationships

In 2003 - 04, FINTRAC further extended its global reach through the establishment of five new information sharing agreements with foreign financial intelligence units, while entering into negotiations for twenty more.

Countries with which FINTRAC has signed a memorandum of understanding:

Country	Date Signed
Belgium	2 January 2003
United States	6 January 2003
United Kingdom	7 January 2003
Australia	5 February 2003
Mexico	27 February 2003
Italy	10 September 2003
Barbados	22 September 2003
Netherlands	7 May 2004
Portugal	1 June 2004
Republic of Korea	23 June 2004

2003 - 04 also saw FINTRAC continue its active membership in the Egmont Group of Financial Intelligence Units. We participate in several working groups, and serve as one of two Americas representatives on the Egmont Committee. In addition to having hosted the Committee and Working Groups meetings in Ottawa in October 2003, FINTRAC actively participated in several Egmont Working Groups. As well, FINTRAC continues to be represented at the tri-annual plenary meetings of the Financial Action Task Force (FATF) and the International Financial Institutions and Terrorist Financing Working Groups. FINTRAC also provided staff to participate as members of international teams established to conduct an evaluation of the UN Global Program Against Money Laundering (UNGPM) and FATF mutual evaluations and International Monetary Fund and World Bank assessments of South Africa's anti-money laundering arrangements.

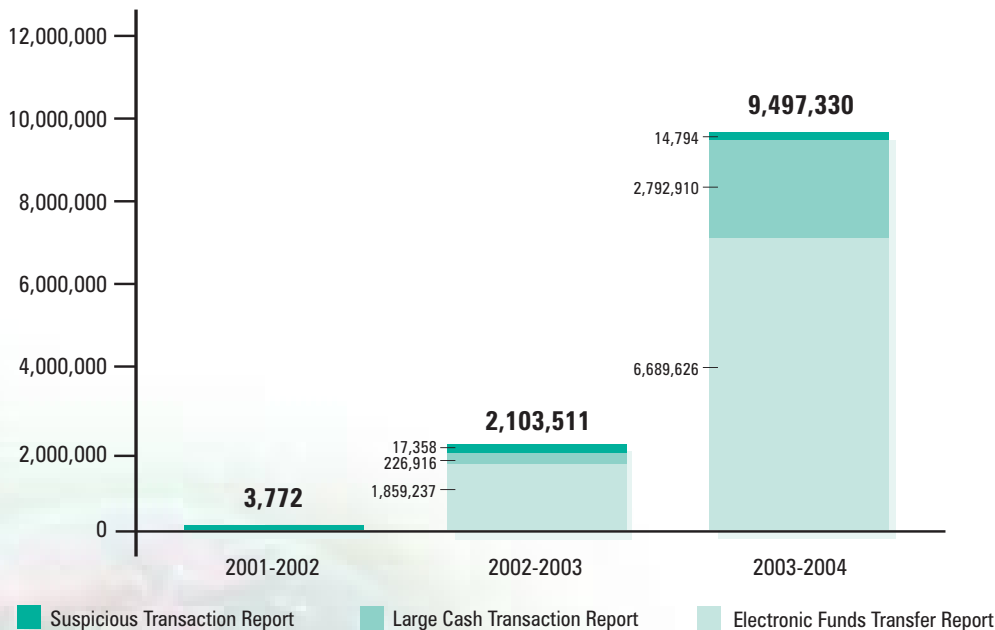
We are proud to contribute to international efforts to combat money laundering and terrorist financing activity by assisting other nations that are creating or improving upon their financial intelligence units. Over the past year, we shared our knowledge and expertise in areas such as electronic reporting, compliance and legislative frameworks with foreign FIUs, foreign government delegations and international organizations. FINTRAC hosted visits from 35 such international delegations and hosted workshops for delegates from the Republic of Korea, Colombia, Indonesia and the Philippines.

WORKING WITH REPORTING ENTITIES TO ENSURE COMPLIANCE WITH THE LAW

Our efforts to ensure compliance with the PCMLTFA and its regulations have resulted in significantly higher levels of, and better quality, reporting. Financial entities and intermediaries across Canada have instituted compliance regimes and improved client identification and record keeping practices, creating an environment in which it is harder to launder money and where law enforcement can quickly access information to support their investigations. These results point to FINTRAC's success in working cooperatively with reporting entities to ensure compliance with the law.

This year, FINTRAC began implementation of its risk-based compliance program, the foundations of which were laid in 2002 - 03 and reported on in last year's Annual Report. Compliance plays an important dual role in the Centre's efforts to combat organized crime and terrorism. Not only does effective compliance enrich our data holdings for analytical purposes, it also supports the deterrence of money laundering and terrorist activity financing in Canada by ensuring reporting entities meet their obligations with respect to reporting, client identification, training and record keeping. As more people are trained to look for suspicions of money laundering and terrorist activity financing, it becomes harder for criminals to undertake these illicit activities and easier for law enforcement to investigate and prosecute.

Reports Received by Fiscal Year and Type



WHO MUST REPORT

- Financial entities (includes banks, credit unions, caisses populaires, trust and loan companies and agents of the Crown that accept deposit liabilities);
- Life insurance companies, brokers or agents;
- Securities dealers, portfolio managers and investment counsellors who are provincially authorized;
- Persons engaged in the business of foreign exchange dealing;
- Money services businesses (including alternative remittance systems, such as Hawala, Hundi, Chitti, etc.);
- Agents of the Crown when they sell money orders;
- Accountants and or accounting firms (when carrying out certain activities on behalf of their clients);
- Real estate brokers or sales representatives (when carrying out certain activities on behalf of their clients);
- Casinos (including those authorized to do business in Canada, with slot machines or roulettes or card games, but excluding certain temporary charity casinos);
- Individuals transporting large amounts of currency or monetary instruments across borders.

WHAT IS REPORTED

- Suspicious transactions related to money laundering;
- Suspicious transactions related to terrorist activity financing;
- Knowledge of terrorist property;
- International electronic funds transfers of \$10,000 or more;
- Large cash transactions of \$10,000 or more; and
- Cross-border movements of \$10,000 or more in currency or monetary instruments.

DRAMATIC INCREASE IN REPORTING LEVELS

In 2003 - 04, FINTRAC received close to 9.5 million reports from financial entities and intermediaries across Canada. This, our first full year of operating with all reporting requirements in effect, saw exponential growth in the volume of reports we received. The total number of reports we received grew by roughly 7.4 million – a four-fold increase over the previous year’s level. Virtually 100 per cent of these reports were filed electronically. The chart on page 12 illustrates this rapid annual growth by report type. (See FINTRAC’S business process, on page 36, for more information on who must report and what is reported.)

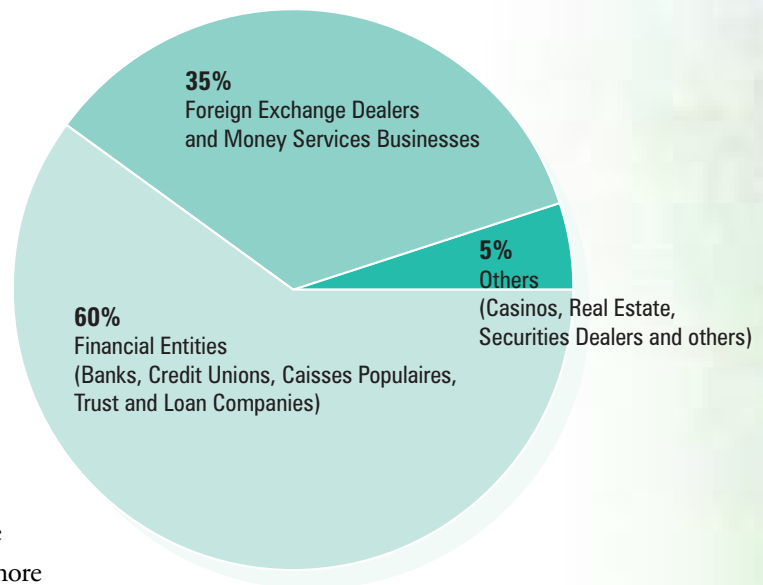
PROVIDING ASSISTANCE TO REPORTING ENTITIES

Communicating with the many thousands of individuals and entities subject to the PCMLTFA is a long-term commitment for the Centre. Over the past year, FINTRAC continued its wide-ranging national outreach program which included:

- more than 500 reporting entity information sessions;
- several presentations at industry conferences;
- placing articles in a number of trade magazines; and
- answering over 1800 inquiries from reporting entities.

FINTRAC’S efforts also focused on providing timely and consistent policy interpretation to reporting entities and on updating our guidelines on the reporting, client identification and record keeping requirements of the legislation. In addition, substantial changes were made to our website to enable reporting entities to obtain information with greater speed and ease. Visits to the website increased during the year, reaching nearly a quarter million.

Suspicious Transaction Reports by Sector



In 2003 – 04, we enhanced the scope and level of our outreach activities for those reporting entity sectors where there are no industry associations (foreign exchange, money services and alternative remittance businesses) to ensure awareness of, and compliance with, reporting obligations.

FINTRAC also initiated a series of feedback presentations for a number of large reporting entity sectors and entities. These presentations offered initial insights on reporting levels, the use of reports in our case disclosures, as well as some examples of sanitized cases. As 2003 - 04 represents the base year for reporting to FINTRAC, it is still too early in our development to provide useful trend information or year-over-year analysis of the reporting data. However, as our data holdings

FINTRAC’S COMPLIANCE PROGRAM

- Policy interpretation
- Reporting entity assistance
- Risk assessment
- Monitoring report quality
- Verifying compliance

continue to grow, we will continue to develop products that will offer useful feedback to reporting entities and support their efforts to enhance the quality of reporting to the Centre.

of non-compliance is high and then tailor our interventions to mitigate specific concerns. To this end, we undertook a comprehensive assessment of the risk of non-compliance for all of the various reporting entity sectors and reporting entities. These assessments helped us select reporting sectors and entities for additional outreach or examination, and to implement follow-up actions to ensure compliance.

Another major thrust of compliance activity in 2003 - 04 was to improve the quality and quantity of reporting. This involved careful monitoring of the data reported and working with reporting entities to ensure that deficiencies were corrected

promptly. Compliance staff performed 67 quality assurance follow-ups and actively monitored progress for another 68 issues.

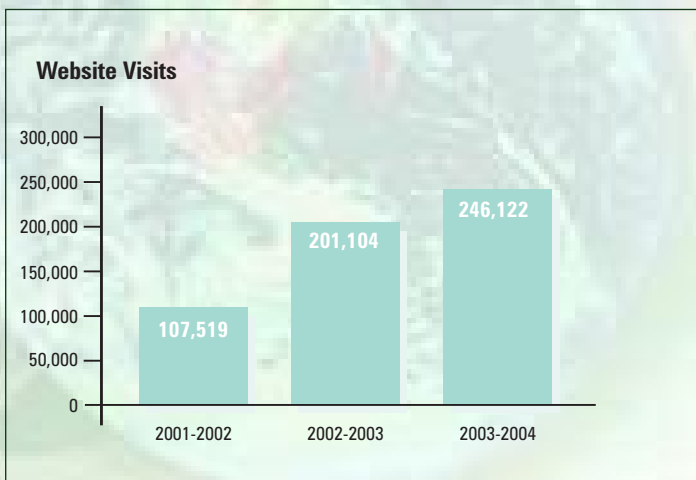
PROMOTING DETERRENCE BY RAISING PUBLIC AWARENESS

Raising public awareness of money laundering and terrorist financing helps alert Canadians to the threat posed by these activities. FINTRAC works to fulfill this part of its mandate through:

- publishing and disseminating widely in both print and electronic forms an annual report to Parliament;
- publishing articles in trade journals and newsletters;
- publishing pamphlets and other printed material for distribution to reporting entities and their clients;
- operating a website and a call centre to provide information to reporting entities and the public; and
- participating in media interviews.

VERIFYING COMPLIANCE

Last year, FINTRAC's compliance efforts focused primarily on outreach and quality assurance. This year, following the development of policies, procedures and an extensive training program for all compliance officers, we began to verify the compliance of reporting entities. This initiative included sending out hundreds of questionnaires to support assessments of compliance levels among reporting entities. As well, we conducted our first on-site compliance examinations of reporting entities in these sectors. These examinations began in January 2004, and 26 were completed by March 31, 2004.



ASSESSING RISK AND MONITORING QUALITY

Given the large number of reporting entities from a wide and diverse range of financial sectors, our task was to identify those sectors or entities where the risk

Great strides were made this past year to enhance compliance with the PCMLTFA by both FINTRAC and reporting entities. Today, robust compliance regimes have been established by reporting entities across Canada. For many in the financial sector, this meant training thousands of employees on money laundering, terrorist financing and detecting suspicious transactions. These measures serve to enrich the Centre's effectiveness, deter money laundering and terrorism and safeguard the integrity of Canada's financial system.

PRODUCING AND SHARING STRATEGIC INFORMATION

BUILDING OUR STRATEGIC ANALYTICAL CAPACITY

FINTRAC's rich database of financial transactions and other information is capable of yielding valuable insights into general patterns and trends related to money laundering and terrorist activity financing.

In addition to tactical analysis, which is concerned with the detection of individual cases of suspected money laundering or terrorist activity financing, we also undertake analysis of aggregated transaction reports and case disclosures to evaluate the larger picture and identify patterns and trends on the methods used by criminal and terrorist networks to acquire and launder funds. Examples of these methods are the use of false identification, uncharacteristic transactions, the use of multiple financial entities, and international money movements to and from areas identified as hot spots for criminal or terrorist activity. Combined with input and expertise from key partners, stakeholders and other external sources of information, this type of analysis is giving FINTRAC a better understanding of current and emerging money laundering and terrorist financing methods.

This year, we analyzed our holdings of tens of thousands of suspicious transaction reports (STRs) to assess the most commonly reported indicators of suspicion. We found that the majority of suspicious transaction reports (62%) were based on suspicions raised by the large amount of cash, cash in unusual denominations or involving multiple currencies, and/or money movements atypical of the expected business profile. The remaining 38% cited the use of multiple transactions, unusual account activity, concern over the source of the funds or movements to or from locations of concern as indicators of suspicion.

The Breakdown of STRs by Reported Suspicious Activity

Reported Suspicious Activity	Percent
Cash Transactions	62%
Multiple Transactions	14%
Atypical business/account activity	13%
Concerns as to the source of funds/identification	12%
Concerns about transactions involving electronic funds transfers	11%

**Note that the percentages add to more than 100 as more than one activity may be cited in a report.*

The application of data-mining methods and tools to the hundreds of case disclosures and tens of thousands of STRs provided us with initial insights into the associations between particular activities and behaviors among individuals and groups involved in money laundering and terrorist activity financing. This analysis allowed the Centre to begin assessing and comparing typologies evident in money laundering with those evident in terrorist activity financing, and to begin examining whether associations can be drawn between certain types of typologies and specific criminal or terrorist groups. It also helped us to identify which organizations and groups are active in Canada so that we might build on this knowledge,

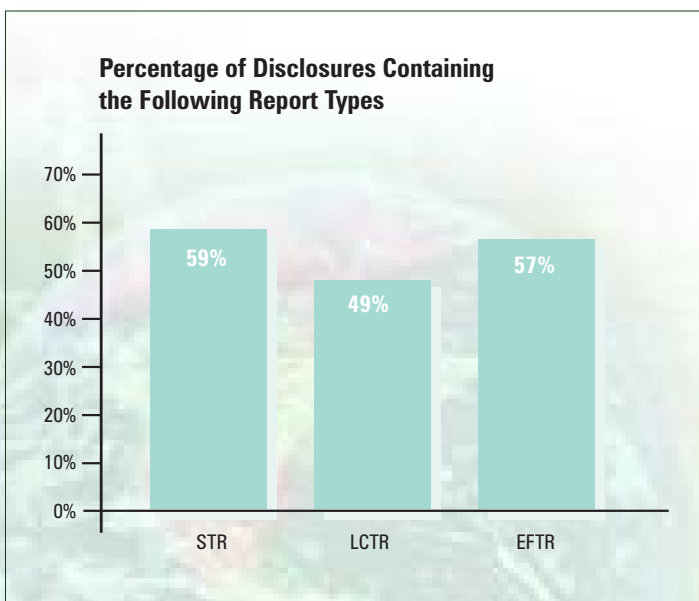
both from internal and external sources of information. This type of analysis is essential to our ongoing analytical effectiveness as it supports our systems development for automated detection.

Additional analysis of our case disclosures indicates that all report types are used in disclosures and that international wire transfers figured more prominently in our case disclosures than was originally anticipated. In the last year, electronic funds transfers figured prominently in the Centre's money laundering and

FINTRAC's growing body of strategic intelligence also enriched discussions with our partners on policy, legislative and intelligence priorities. In the past year, the Centre conducted a series of executive briefings for the departments and agencies involved in both the Public Security and Anti-Terrorism Initiative and the National Initiative to Combat Money Laundering. These briefings provided our partners with a greater understanding of the unique intelligence perspective that FINTRAC can provide.

The Centre also intensified its contribution of strategic information about patterns, trends and typologies to a number of domestic and international fora, including the National Coordinating Committee on Organized Crime, the Financial Action Task Force and the Egmont Group.

A key outcome of our strategic analytical work was a deeper awareness about the type and nature of information that must be captured and tracked to better understand money laundering and terrorist activity financing typologies. Developing both this awareness and the automated systems required to capture and track the necessary information will be a priority in the new fiscal year.



terrorist activity financing case disclosures. As well, 69% of our case disclosures involved more than one reporting entity, which speaks to the importance of having a central collection and analytical capability.

OUR ORGANIZATION

SUSTAINING ORGANIZATIONAL EFFECTIVENESS

Key to our early success in getting up and running was our emphasis on striving for organizational excellence and being an exemplary employer. These factors are still fundamental.

FINTRAC's employees are its most important and valued resource. Drawn from both public and private sectors, they come from a wide range of backgrounds, including forensic accounting, law, intelligence analysis, national security, law enforcement and banking and securities. To foster an environment that attracts and keeps its employees, the Centre continued to encourage a healthy work/personal life balance and to provide opportunities for professional and personal growth and learning.

In 2003 - 04, with these commitments in mind, many remaining elements of the management framework were put in place or strengthened in accordance with the Government of Canada's emphasis on modern management and accountability.

Values and ethics are cornerstones of a productive and accountable organization. FINTRAC took pains to advance these principles by developing a code of conduct and ethics that engaged employees in discussions about workplace expectations. The Centre provided,

as well, training initiatives directed to the promotion of integrity, professionalism, security awareness and procedures for handling privacy issues. Policies and procedures defining responsibilities and accountabilities, including strong stewardship, have been formalized and communicated to staff.

The Centre made progress in the establishment of a performance management framework. Once implemented, the framework will ensure that critical performance information is identified, collected and used to support decision-making and to demonstrate results.

PROTECTING SENSITIVE INFORMATION AT FINTRAC

- A layered approach to security has been adopted for FINTRAC's premises and systems. It incorporates access control, security monitoring and a response capacity. This coverage is also extended to regional offices.
- Access to personal information within the Centre is limited to those employees whose designated function makes access essential.
- All access to personal information uses strong authentication and biometric software to ensure that the person working with the information is authorized to do so.
- FINTRAC's computer security prevention measures include state-of-the-art firewalls to prevent computer hackers from gaining access and active intrusion detection monitoring. Once personal information has arrived through FINTRAC'S external communications lines, it is processed and stored on computer systems which are not connected to, or accessible from, the Internet.
- Case disclosures can take place only after FINTRAC's analysis sector is of the view that the thresholds for money laundering or terrorist activity financing have been met, and senior management has reviewed and agreed with the findings.
- Access to FINTRAC's facilities and to personal information in the Centre's databases is recorded and monitored.
- All staff are made aware of their responsibilities to protect information and severe penalties exist in the PCMLTFA, which can be applied if an employee or contractor were to disclose personal information improperly.

PROTECTING PERSONAL INFORMATION

A robust, well-understood and strongly enforced security policy is an integral part of FINTRAC's operations. In 2003-04, the Centre met its commitments to protect the personal information entrusted to it, the processes used in handling such information, the results of its analyses, and its people and premises.

The protection of personal financial information received from reporting entities is one of the pillars of the PCMLTFA. These sections of the Act provide assurance for reporting entities – and the Canadian public – that information about the financial transactions of law-abiding citizens will be protected from unauthorized use and disclosure.

The protection of privacy at FINTRAC is the responsibility of privacy and security personnel working in tandem with all employees. In 2003-04, their combined efforts introduced a number of specific security and privacy initiatives that support existing measures. The Centre implemented enhanced security measures and employees participated in security awareness sessions. New employees and contractors are briefed on security procedures at the time of their arrival. The physical and electronic security systems continue to be upgraded.

FINTRAC has developed a comprehensive privacy policy and a privacy impact assessment that has been shared with the Office of the Privacy Commissioner. An outline of the obligations involved in the processing of Access to Information and Privacy requests has also been distributed to all staff.

One important aspect of FINTRAC's security is ensuring that business can continue despite a disrupting event. It is reassuring to note that the Centre was able to maintain critical operations during a prolonged period of instability in the region's power grid in August 2003. At present, an interim plan is in place for continuing business during a disruption and the development of a more permanent plan, which includes business resumption, is underway.

2004-2005 PRIORITIES

BUILDING ON STRENGTHS

In the year ahead, FINTRAC will continue to build on its strong record of achievement, expanding its contributions to domestic and global efforts to combat organized crime and terrorism.

FINTRAC looks forward to another year of increasing its knowledge, expertise and capacity. The Centre's success in 2004 – 05 will be measured by the utility and timeliness of its financial intelligence product, the efficacy of its compliance program and the usefulness of the insights provided by its strategic intelligence.

Over the course of the next 12 to 24 months, as part of the federal accountability and performance management process, FINTRAC will participate in a number of reviews and audits, including the Treasury Board Horizontal Review of the Public Security and Anti-Terrorism (PSAT) Initiative, the Office of the Auditor General's value-for-money audit of the National Initiative to Combat Money Laundering, the Five-year Money Laundering and Terrorist Financing Evaluation, the Three-year Parliamentary Review of Bill C-36, the Five-year Parliamentary Review of the PCMLTFA, and the Treasury Board of Canada Expenditure Review. For most of these examinations, FINTRAC is one of several partners involved. The Centre will also carry out its own internal review to ensure both the efficient use of its resources, and the sustainability of its operations, within a reduced funding base.

As well, the Centre looks forward to implementing the *Public Safety Act, 2002*, which will enable us to partner with regulators in the exchange of information and to negotiate access to national security databases.

We will seek technology-driven solutions to ensure the future management of our increasingly dynamic and complex information landscape and heighten our analytical and compliance capacities. We intend to launch two major systems initiatives which will both improve the quantitative processing of information and assist in detecting poor quality reporting and in measuring compliance. In the first of these initiatives, which will be developed in 2004 - 05 and implemented beginning in 2005 - 06, FINTRAC will work to enhance its automated data analysis and detection. The second initiative, in parallel with the first, will enhance the Centre's case management capability.

FINTRAC will continue to stress its obligation to protect personal information. Priorities in this area include programs and user-friendly materials that promote security and privacy awareness among employees. Strong commitment to employer and organizational excellence will also remain a central concern, as will the development of succession plans and workforce measurement techniques.

FINTRAC's three main priorities for 2004-05 remain unchanged as they continue to reflect and address our most significant commitments and challenges.

DELIVER TIMELY AND HIGH-QUALITY FINANCIAL INTELLIGENCE

Anticipated Result: Increasingly effective, technology-driven financial intelligence analysis and case disclosures that are widely used and accepted by law enforcement and intelligence agencies.

Producing increasingly insightful financial intelligence and delivering it in a timely fashion to law enforcement, security agencies, and to foreign FIUs will remain FINTRAC's primary focus.

Our relationships with Canadian law enforcement and intelligence agencies will continue to be a key priority. The Centre will persist in seeking opportunities to raise and maintain awareness about its mandate and the worth of its financial intelligence product. To evaluate its intelligence product, FINTRAC plans to work with partner agencies to monitor case disclosure results. The Centre will also negotiate access to federal and provincial law enforcement and security databases.

On the international front, the Centre will continue to strengthen ties with foreign FIUs and other international partners and, where possible, to provide experts in support of multilateral initiatives. Discussions on Memoranda of Understanding for information exchange are underway with 20 countries and many of these agreements are likely to be reached during 2004 - 05. As an active member of the Egmont Group, FINTRAC will play a significant role in the various information technology, training and organizational initiatives, as well as support for new and prospective members. Workshops, with an emphasis on technological capacity, will be delivered to interested countries.

STRENGTHEN THE RISK-BASED COMPLIANCE PROGRAM

Anticipated Result: A cooperative program that fosters compliance by reporting entities, resulting in higher quality and quantity of reporting and improved record keeping and client identification practices.

Central to the success of FINTRAC's compliance program is our relationship with the entities that must report to us. As a result, the program will continue to stress cooperation in its focus on report quality and quantity, assessments of the risk of non-compliance, and monitoring and following-up on specific instances of non-compliance. Towards this end, the Centre plans to continue conducting reporting entity examinations, complete the identification of all reporting entities, develop a national examination plan, and refine its examination policies and procedures.

We expect the establishment of partnerships with regulatory agencies to be a major focus of the compliance program in 2004-05. The provisions of the *Public Safety Act, 2002*, will allow FINTRAC to enter into agreements with regulators to exchange information, which will permit a more efficient and effective compliance program to be implemented nationally. Sharing information with regulators who already have a mandate and interest in ensuring compliance will minimize duplication in the conduct of verifications, maximize the efficiency of existing regulatory reviews and lessen the regulatory burden for reporting entities.

Reporting entities will continue to receive assistance with updated interpretation notes and guidelines from FINTRAC's public website, and the Centre will develop and publish additional sector-specific communications material. These initiatives, along with ongoing outreach efforts, will assist reporting entities to meet their legal obligations.

ELEMENTS OF A FINTRAC COMPLIANCE EXAMINATION

The purpose of a FINTRAC compliance examination is to determine whether the reporting entity is meeting its legislative obligations. Different approaches may be used, such as a computer search of reports sent to FINTRAC, desk reviews or on-site examinations.

In the vast majority of cases where an on-site examination is conducted, FINTRAC will notify the reporting entity in advance and schedule a mutually agreeable date for the examination.

- A letter will confirm the time and place, the scope and approximate duration of the examination.
- FINTRAC may request that compliance policies and procedures, as well as other documentation, be provided before the examination day.
- During the on-site examination, FINTRAC will meet the designated compliance officer and senior manager.
- The information reviewed may include the four elements of the reporting entity's compliance regime (appointment of a compliance officer, compliance policies and procedures, review of compliance framework, ongoing compliance training) as well as reporting, client identification and record keeping requirements.
- The Centre may interview other staff.
- The examination will test policies and procedures.
- After completing the examination, FINTRAC will send a letter outlining the examination results and, when applicable, noting any deficiencies and recommending best practices.
- If required, the reporting entity is asked to provide an action plan within a set period of time to address any deficiencies

DISSEMINATE STRATEGIC INFORMATION

Anticipated result: Strategic intelligence, advice and analysis to enhance awareness and understanding of money laundering and terrorist financing and inform the development of effective Canadian and multilateral counter-strategies.

An in-depth understanding of any phenomenon depends on lengthy observation, study and analysis. FINTRAC's strategic intelligence on illicit proceeds will, as it continues to mature, prove of increasing value to our partner organizations.

Macro-level understanding of criminal money can assist the domestic fight against money laundering and terrorist activity financing by identifying gaps in the existing regime and potential improvements to existing legislation and regulation. Aggregate information about the ways and means of moving criminal money can assist law enforcement to fine tune their investigative efforts and can provide additional guidance to reporting entities on the identification of suspicious transactions.

To the extent that it is shared among jurisdictions, strategic information can contribute to international research efforts and the development of global strategies to combat money laundering and terrorist activity financing. Indeed, in the international community, FIUs have recognized the value of strategic information and many are beginning to establish a strategic analytical capacity in their agencies.

In the year ahead, FINTRAC will intensify its efforts to develop comprehensive insights into the general trends and complex mechanisms that characterize money laundering and terrorist activity financing. Developing our body of strategic expertise will depend, in part, on progress in refining our current IT system architecture so that data can be structured, manipulated and queried in ways that serve high-level information needs. An assessment of best practices employed by other FIUs that have, or are building, a strategic analytical capacity will further inform our efforts.

APPENDIX I

FINTRAC'S FINANCIAL STATEMENTS

**Financial Statements of
Financial Transactions and Reports
Analysis Centre of Canada
(FINTRAC)**

**Unaudited
For the Year Ended March 31, 2004**

FINANCIAL TRANSACTIONS AND REPORTS ANALYSIS CENTRE OF CANADA

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2004, and for all information contained in this report, rests with Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) management.

These statements, which include amounts based on management's best estimates as determined through experience and judgment, have been prepared in accordance with Treasury Board Accounting Standards based upon Canadian generally accepted accounting principles. Readers of these statements are cautioned that the financial statements are not necessarily complete; certain assets, liabilities and expenses are only recorded at a government-wide level at this time. These statements should be read within the context of the significant accounting policies set out in the Notes.

Management has developed, and maintains, books, records, internal controls and management practices, designed to provide reasonable assurance that the Government's assets are safeguarded and controlled, resources are managed economically and efficiently in the attainment of corporate objectives, and that transactions are in accordance with the *Financial Administration Act* and regulations as well as FINTRAC's policies and statutory requirements.



Horst Intscher
Director
FINTRAC



Lynn MacFarlane
Deputy Director
Corporate Management

FINANCIAL TRANSACTIONS AND REPORTS ANALYSIS CENTRE OF CANADA

STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at March 31

	2004	2003
ASSETS		
Financial Assets		
Accounts Receivable (note 5)	\$281,693	\$1,236,512
Non-financial Assets		
Capital assets (note 4)	17,079,302	23,634,813
TOTAL ASSETS	\$17,360,995	\$24,871,325
LIABILITIES		
Accounts payable and accrued liabilities (note 5)	3,103,777	2,289,979
Accrued compensation (note 6)	1,758,644	1,440,390
	4,862,421	3,730,369
NET ASSETS	12,498,574	21,140,956
TOTAL LIABILITIES AND NET ASSETS	\$17,360,995	\$24,871,325

Commitments and Contingencies (notes 7 and 8)

The accompanying notes are an integral part of these financial statements.

Approved by:



Horst Intscher
Director
FINTRAC

FINANCIAL TRANSACTIONS AND REPORTS ANALYSIS CENTRE OF CANADA

STATEMENT OF OPERATIONS AND NET ASSETS (UNAUDITED)

For the year ended March 31

	2004	2003
OPERATING EXPENSES		
Salaries and employee benefits	\$18,484,867	\$15,968,668
Amortization	8,978,728	7,736,521
Professional and special services	5,259,776	7,406,392
Rentals	2,628,176	2,617,655
Transportation and telecommunications	2,018,170	2,058,839
Repairs and maintenance	1,743,131	1,280,006
Utilities, materials and supplies	672,465	613,687
Information	245,667	235,781
NET COST OF OPERATIONS	\$40,030,980	\$37,917,549
Net Assets, beginning of year	21,140,956	15,639,241
Net Cost of Operations	(40,030,980)	(37,917,549)
Services provided without charge	1,120,657	1,106,465
Net Cash Provided by Government	30,267,941	42,312,799
NET ASSETS, END OF YEAR	\$12,498,574	\$21,140,956

The accompanying notes are an integral part of these financial statements

FINANCIAL TRANSACTIONS AND REPORTS ANALYSIS CENTRE OF CANADA

STATEMENT OF CASH FLOW (UNAUDITED)

For the year ended March 31

	2004	2003
OPERATING ACTIVITIES		
Net Cost of Operations	\$40,030,980	\$37,917,549
Non-Cash items included in cost of operations		
Amortization of capital assets	(8,978,728)	(7,736,521)
Services provided without charge	(1,120,657)	(1,106,465)
Statement of Financial Position adjustments		
Change in accounts payable and accrued liabilities	(813,798)	1,014,220
Change in accrued compensation	(318,254)	(407,574)
Change in receivables	(954,819)	765,934
CASH PROVIDED BY OPERATING ACTIVITIES	27,844,724	30,447,143
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of Capital Assets	2,423,217	11,865,656
CASH PROVIDED BY INVESTING ACTIVITIES	2,423,217	11,865,656
NET CASH PROVIDED BY GOVERNMENT	\$30,267,941	\$42,312,799

The accompanying notes are an integral part of these financial statements.

FINANCIAL TRANSACTIONS AND REPORTS ANALYSIS CENTRE OF CANADA

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

For the year ended March 31, 2004

1. AUTHORITY AND OBJECTIVES

The Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) was established through the *Proceeds of Crime (Money Laundering) Act* in July 2000 as part of the National Initiative to Combat Money Laundering. This legislation established FINTRAC as a government agency and separate employer, named in Schedule 1.1 of the *Financial Administration Act*. Originally, the key objectives for FINTRAC were the detection and deterrence of laundering of proceeds of crime. However, with the enactment of the *Anti-terrorism Act* in December 2001, FINTRAC was given additional responsibilities and government funding to detect the financing of terrorist activities. FINTRAC fulfills its responsibilities by collecting, analyzing, assessing and, where appropriate, disclosing information relevant to the investigation and prosecution of money laundering offences and the financing of terrorist activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

These financial statements have been prepared on an accrual basis of accounting in accordance with Treasury Board Accounting Standards. These Standards are based on generally accepted accounting principles in Canada. The primary source of the accounting principles is from the recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants supplemented by the recommendations of the Accounting Standards Board of the Canadian Institute of Chartered Accountants for situations not covered by the Public Sector Accounting Board. Readers of these statements are cautioned that the introduction of accrual

accounting at the departmental level is evolutionary. Not all assets, liabilities and expenses applicable to a department are recorded at the departmental level at this time. For example, any unfunded portion of FINTRAC's liability for future employee benefits under the Public Service Superannuation Plan is not recorded in FINTRAC's financial statements. As such, the financial statements are not necessarily complete. The accompanying notes provide additional detail and should be read with care. All such assets, liabilities and expenses are recorded at a government-wide level in the financial statements of the Government of Canada.

(b) Parliamentary Appropriations

FINTRAC is financed by the Government of Canada through Parliamentary appropriations. Appropriations provided to FINTRAC do not parallel financial reporting according to generally accepted accounting principles. They are based, in large part, on cash flow requirements. Consequently, items recognized in the statement of operations and the statement of financial position are not necessarily the same as those provided through appropriations from Parliament. Note 9 to these financial statements provides a high-level reconciliation between the two bases of reporting as well as information regarding the source and disposition of these authorities.

(c) Consolidated Revenue Fund

All departments and agencies, including FINTRAC, operate within the Consolidated Revenue Fund (CRF). The CRF is administered by the Receiver General for Canada. All cash receipts are deposited to the CRF and all cash disbursements made by FINTRAC are paid from the CRF. Net cash provided by government is the difference between all cash receipts and all cash disbursements including transactions between departments.

(d) Expenses

FINTRAC records expenses when the underlying transaction or event giving rise to the expense occurred, subject to the following:

- Employee termination benefits are expensed by FINTRAC in the year they are paid. Any accrual of these benefits is recognized in the consolidated financial statements of the Government of Canada.
- Vacation and overtime amounts are expensed in the year that the entitlement occurs.
- Environmental liabilities are not recognized in FINTRAC's books of accounts but are recognized in the consolidated financial statements of the Government of Canada.

(e) Capital assets

All assets treated as capital assets under Public Sector Accounting Board. Recommendations plus leasehold improvements, having an initial cost of \$5,000 or more, are recorded at their acquisition cost. Bulk asset purchases with a total cost of \$5,000 or more are also capitalized. The capitalization of software and leasehold improvements has been done on a prospective basis from April 1, 2001. FINTRAC amortizes capital assets on a straight-line basis over the estimated useful life of the capital asset as follows:

Asset Class	Amortization Period
Machinery and equipment	5 years
Office furniture	10 years
Informatics hardware	3 years
Informatics software	3 years
Leasehold improvements	lesser of remaining lease term and 10 years

(f) Contributions to Public Service Superannuation Plan

FINTRAC's eligible employees participate in the Public Service Superannuation Plan administered by the Government of Canada. Both the employees and FINTRAC contribute to the cost of the Plan. FINTRAC's contribution in the year was \$1,787,755.

Contributions by FINTRAC in respect of current service are expensed in the year in which the contributions are made. Actuarial surpluses or deficiencies are not recorded in FINTRAC's books but are recognized in the consolidated financial statements of the Government of Canada.

(g) Services provided without charge by other Government Departments

Services provided without charge by other government departments are recorded as operating expenses by FINTRAC. Services without charge represent contributions covering employer's share of employees' insurance premiums paid to Treasury Board Secretariat. A corresponding amount is credited directly to Net Assets.

(h) Legal fees paid to Justice Canada

Commencing in 2003-2004, legal fees paid to Justice Canada are not to be charged against FINTRAC's appropriation from Parliament, as the related salaries for these legal services have already been charged against Justice Canada's Parliamentary appropriation. However, as these expenses reflect actual legal fees incurred and paid by FINTRAC to Justice Canada, they are reflected as operating expenses in these financial statements.

(i) Foreign currency transactions

Transactions involving foreign currencies are translated into Canadian dollar equivalents using rates of exchange in effect at the time of those transactions. Assets and liabilities denominated in foreign currencies are translated using exchange rates in effect on March 31st.

3. MEASUREMENT UNCERTAINTY

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the financial statements. At the time of preparing these statements, management believes the estimates and assumptions to be reasonable. The most significant item where estimates are used is amortization of capital assets.

4. CAPITAL ASSETS

	COST AS AT APRIL 1, 2003	NET ADDITIONS	COST AS AT MARCH 31, 2004	ACCUMULATED AMORTIZATION	NET BOOK VALUE AS AT MARCH 31, 2004	NET BOOK VALUE AS AT APRIL 1, 2004
Machinery and equipment	1,310,294	1,053	1,311,347	702,574	608,773	897,373
Office Furniture	2,614,185	153,439	2,767,624	589,291	2,178,333	2,289,279
Informatics Hardware	16,070,747	570,145	16,640,892	11,720,712	4,920,180	9,363,509
Informatics Software	8,605,935	1,110,575	9,716,510	5,230,704	4,485,806	6,260,020
Leasehold Improvements	5,061,033	567,681	5,628,714	742,504	4,886,210	4,824,632
	33,662,194	2,402,893	36,065,087	18,985,785	17,079,302	23,634,813

Amortization expense for the year ended March 31, 2004 is \$8,978,728.

5. RELATED PARTY TRANSACTIONS

FINTRAC is related, in terms of common ownership, to all Government of Canada departments and Crown Corporations. FINTRAC enters into transactions with these entities in the normal course of business and on normal trade terms. FINTRAC has expenses of

\$5,641,641 incurred from transactions in the normal course of business with other government departments during the year.

The accounts receivable and accounts payable with other government departments and unrelated external parties are as follows:

	2004	2003
ACCOUNTS RECEIVABLE:		
Other Government Departments	\$266,135	\$1,063,237
External Parties	15,558	173,275
TOTAL	\$281,693	\$1,236,512
ACCOUNTS PAYABLE:		
External Parties	3,004,740	2,107,774
Other Government Departments	99,037	182,205
TOTAL	\$3,103,777	\$2,289,979

6. ACCRUED COMPENSATION

One of the features of FINTRAC's Total Compensation Approach is Performance Pay. This approach incorporates a component based on promoting skill development and encouraging high performance levels by allowing employees to move within a salary band based on achievement of performance-based agreements. These performance-based agreements form part of the comprehensive Performance Management Program. Accrued compensation includes regular salaries, benefits and accrued vacation, together with performance pay that has been earned by employees but not paid out at year-end.

7. COMMITMENTS

FINTRAC has entered into lease agreements for office space in 4 locations across Canada. The minimum aggregate annual payments for future fiscal years are as follows:

	2004	2003
2004-2005	\$2,546,728	\$2,275,922
2005-2006	2,569,503	1,139,876
2006-2007	2,592,998	324,897
2007-2008	2,632,325	115,825
2008-2009	2,631,807	–
TOTAL	\$12,973,361	\$ 3,856,520

8. CONTINGENCIES

In the normal course of its operations, FINTRAC may become involved in various legal actions. Some of these potential liabilities may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded on the government's consolidated financial statements. These estimated liabilities are not recognized on FINTRAC's financial statement as a liability until the amount of the liability is firmly established.

9. PARLIAMENTARY APPROPRIATIONS

FINTRAC receives its funding through Parliamentary appropriations, which is based primarily on cash flow requirements. Items recognized on the Statement of Operations and Net Assets in one year may be funded through Parliamentary appropriations in prior and future years. Accordingly, FINTRAC has different Net Cost of Operations for the year on a government-funding basis than on Canadian generally accepted accounting principles. These differences are reconciled below.

(a) Reconciliation of the net cost of operations to total Parliamentary appropriations used:

	2004	2003
NET COST OF OPERATIONS	\$40,030,980	\$37,917,549
ADJUSTMENTS FOR ITEMS NOT AFFECTING APPROPRIATIONS:		
Less: Amortization	(8,978,728)	(7,736,521)
Services provided without charge	(1,120,657)	(1,106,465)
Legal fees paid to Justice Canada	(482,189)	–
Vacation and Compensatory Time	(101,548)	(94,487)
Plus: Refunds of prior years' expenditures - operations	20,908	–
	29,368,766	28,980,076
ADJUSTMENTS FOR ITEMS AFFECTING APPROPRIATIONS:		
Add: Capital acquisitions	2,423,217	11,865,656
TOTAL PARLIAMENTARY APPROPRIATIONS USED	\$31,791,983	\$40,845,732

(b) Reconciliation of Parliamentary appropriations voted to Parliamentary appropriations used:

	2004	2003
PARLIAMENTARY APPROPRIATIONS – VOTED:		
Vote 30, 30(a) and 30(b)-Operating expenditures	\$30,725,265	\$39,783,406
Statutory contributions to employee benefit plans	2,500,357	2,374,573
Spending of proceeds from the disposal of surplus		
Crown assets	20,123	12,306
	\$33,245,745	42,170,285
Less: Lapsed appropriation – operating	(1,453,762)	(1,324,553)
TOTAL PARLIAMENTARY APPROPRIATIONS USED	\$31,791,983	\$40,845,732

APPENDIX II

**GLOSSARY OF TERMS
AND
ACRONYMS**

G L O S S A R Y O F

T E R M S A N D A C R O N Y M S

CBSA

Canada Border Services Agency is an agency of the Government of Canada that manages the nation's borders by administering and enforcing domestic laws and international conventions governing trade and travel and administers tax laws for the Government of Canada and for most of the provinces and territories, and that provides all customs services.

CIC

Citizenship and Immigration Canada is a federal government department that administers the *Immigration and Refugee Protection Act*.

CRA

Canada Revenue Agency administers the tax laws of the Government of Canada and for most provinces and territories.

Cross Border Currency Report (CBCR)

A report that must be filed by a person entering or leaving Canada advising that the person is carrying large sums of currency or monetary instruments (\$10,000 or more), or by a person mailing or sending such large sums into or out of Canada.

CSIS

Canadian Security Intelligence Service is Canada's national security agency that has the mandate to investigate and report on threats to the security of Canada.

Customs Cross-Border Currency Seizure Report

A report filed with FINTRAC by a CBSA officer who seizes cash or monetary instruments for which a Cross Border Currency Report should have been filed but was not. The report indicates the circumstances and details of the seizure.

Egmont Group of Financial Intelligence Units (FIU)

An international group of FIUs founded in 1995, which work together in an informal organization to provide a forum for FIUs to improve support for their respective national anti-money laundering and anti-terrorist financing programs.

Electronic Funds Transfer (EFT) Report

A report that a reporting entity must file with FINTRAC in respect of a transmission of instructions for the transfer of a sum of \$10,000 or more out of or into Canada, through any electronic, magnetic or optical device, telephone instrument or computer.

Financial Action Task Force (FATF)

An inter-governmental body, established by the G-7 Summit in 1989, whose purpose is the development and promotion of policies, both at national and international levels, to combat money laundering. At a special plenary meeting held in October 2001, FATF's mandate was expanded to include the combating of terrorist financing.

Large Cash Transaction Report (LCTR)

A report that a reporting entity must file with FINTRAC when it receives \$10,000 or more in cash in the course of a single transaction; or when it receives two or more cash amounts totaling \$10,000 or more that it knows were made within 24 consecutive hours of each other by or on behalf of the same individual or entity.

Privacy Impact Assessment (PIA)

An assessment that each federal department and agency is required to carry out regarding the impact of its operations on the obligations imposed by the *Privacy Act* for the protection of personal information.

Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA)

This statute establishes FINTRAC to collect, analyze, assess and disclose financial information with respect to money laundering and terrorist financing. Originally enacted as the *Proceeds of Crime (Money Laundering) Act* in June 2000, it was amended in December 2001, to add combating terrorist financing to FINTRAC's mandate.

RCMP

Royal Canadian Mounted Police – Canada's national police force.

Suspicious Transaction Report (STR)

A report that a reporting entity must file with FINTRAC in respect of a financial transaction that occurs in the course of its activities and for which there are reasonable grounds to suspect that the transaction is related to the commission of a money laundering or terrorist activity financing offence.

Terrorist Property Report (TPR)

A report that every person or business must file with the RCMP and CSIS, when it has in its possession or control property that it knows is owned or controlled by or on behalf of a terrorist group. A copy of this report must also be provided to FINTRAC. This includes information about any transaction or proposed transaction relating to that property.

BUSINESS PROCESS

RECEIVING INFORMATION

Information about financial transactions and other information is received from many different reporting entities.

CONDUCTING ANALYSIS

Reports are analysed along with other information, to develop financial intelligence in order to detect suspected money laundering and terrorist activity financing.

DISCLOSING INTELLIGENCE

Where appropriate, financial intelligence pertaining to suspected cases of money laundering, terrorist activity financing, or threats to the security of Canada, is disclosed.

