



Government
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FINTRAC ANNUAL REPORT 2006



Financial Transactions and
Reports Analysis Centre of Canada

Canada

FINTRAC HIGHLIGHTS

- 2002**
Building a Solid Foundation
- Became operational in late autumn 2001**
- Received 3,747 Suspicious Transaction Reports
 - Developed technical capability to enable electronic reporting
 - Conducted cross-country consultations with reporting entities
 - Established headquarters and three regional offices
 - Made our first case disclosure to law enforcement
- 2003**
People, Teamwork, Integrity, Excellence
- 103 case disclosures of financial intelligence involving approximately \$460 million in suspect financial transactions**
- By March 2003, finished phasing in the receipt of all financial transaction reports mandated by our legislation
 - Developed risk management framework for compliance
 - Gained membership in the Egmont Group of foreign financial intelligence units (FIUs)
 - Signed five memoranda of understanding (MOU) with foreign FIUs
- 2004**
Making a Difference
- 197 case disclosures of financial intelligence involving approximately \$696 million in suspect financial transactions**
- Achieved virtually 100 per cent electronic reporting
 - Received close to 9.5 million financial transaction reports
 - Began implementing the risk-based compliance program
 - Participated in several Egmont working groups, including the Egmont Steering Committee
- 2005**
Striving for Excellence
- 142 case disclosures of financial intelligence involving approximately \$2 billion in suspect financial transactions**
- Close to 23 million transaction reports in FINTRAC's database
 - FINTRAC's Director chaired both the Information Technology Working Group and the Funding and Administration Sub-committee of the Egmont Group
 - Delivered two non-compliance disclosures to law enforcement
 - Signed five MOU with national and provincial regulatory agencies
- 2006**
Making the Connections
- 168 case disclosures of financial intelligence involving just over \$5 billion in suspect financial transactions**
- Furthered compliance across Canada using FINTRAC's fully operational compliance program
 - Over 37.4 million financial transaction reports in FINTRAC's database
 - Reached a total of 30 MOU with foreign financial intelligence units
 - FINTRAC's Director chaired the Egmont Transition Sub-committee leading to a decision to establish a permanent Egmont secretariat in Toronto
 - Produced reports for law enforcement and security partners that shed light on trends and patterns in money laundering and terrorist activity financing
 - Reached a total of 15 MOU with federal and provincial regulatory agencies
 - Commenced first-stage implementation of a new generation of IT systems
 - Made three additional non-compliance disclosures to law enforcement



August 25, 2006

The Honourable James M. Flaherty, 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 fifth Annual Report for the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC). This report details our results for the period from April 1, 2005 to March 31, 2006 and our priorities for 2006-07.

FINTRAC's role is to facilitate the detection and deterrence of money laundering and terrorist activity financing in Canada and abroad by analyzing suspect transactions and making case disclosures of financial intelligence to the appropriate law enforcement agency or to the Canadian Security Intelligence Service (CSIS), when there are reasonable grounds for suspicion.

We continue in our commitment to promote compliance with Canada's anti-money laundering and anti-terrorist activity financing legislation and to deliver the high-quality financial intelligence that is our unique contribution to the fight against organized crime and terrorism.

Yours sincerely,

Horst Intscher
Director

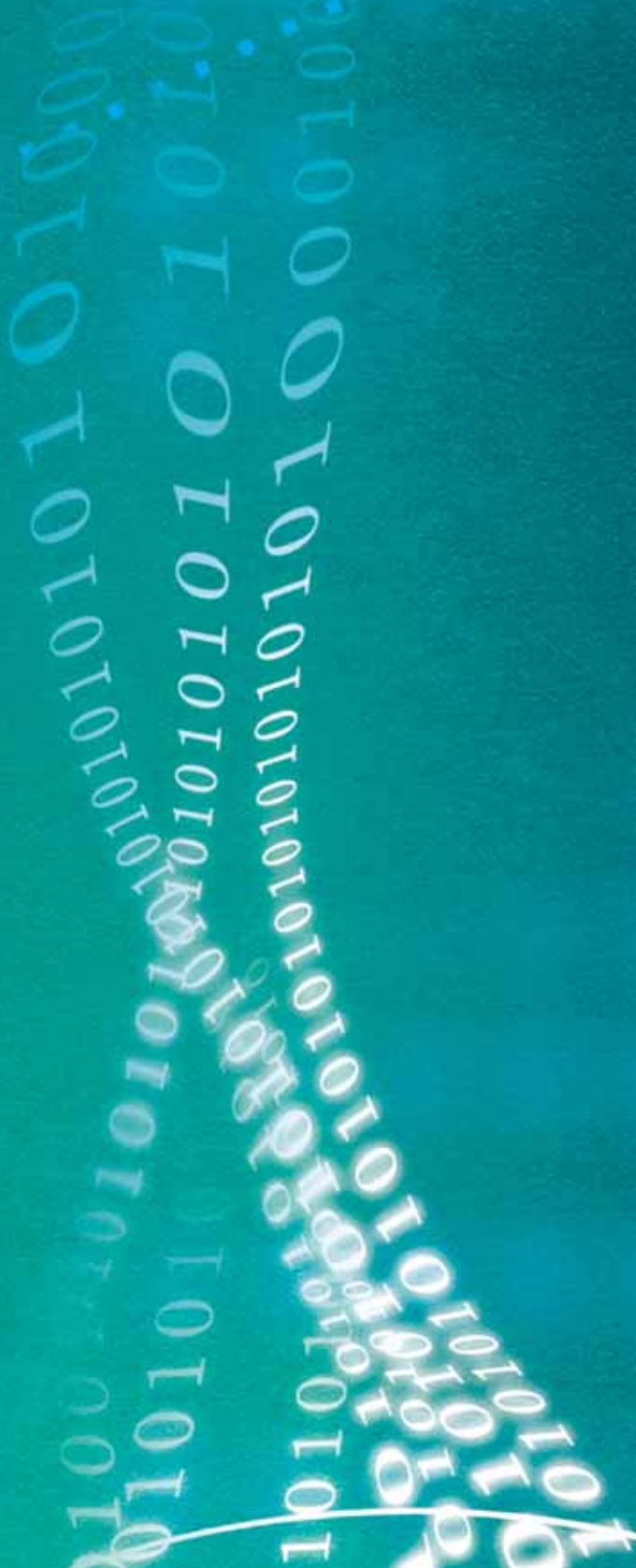
FINTRAC ANNUAL REPORT 2006

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MAKING THE CONNECTIONS



FINTRAC

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We have tended until recently to think of ourselves still as a fledgling or “start-up” agency, but in the six years that have gone by since our legal establishment the Centre has developed and matured enormously. We have become a valued partner and intelligence contributor in the larger domestic fight against organized crime and terrorist financing, and we have emerged as one of the top financial intelligence units in the world. With each passing year we have enhanced our expertise and our capabilities, and we have become adept at seeing into the far corners of our ever-growing data holdings, to identify financial flows suspected of being connected to money laundering, the financing of terrorist activity, or other threats to the security of Canada.

It is especially gratifying to see the results of our work now being reflected more and more frequently in criminal investigations, charges, prosecutions and convictions. The positive feedback we are getting from law enforcement agencies and from the Canadian Security Intelligence Service (CSIS) shows us that our efforts are making a valuable contribution to protecting the Canadian financial services sector from abuse by criminals and terrorists. In this way, also, we are helping to enhance the safety and security of Canadian society.

I am happy to say that this annual report speaks of yet another banner year in terms of our results. We consciously and successfully pursued a strategy aimed at identifying larger and more complex cases. In 2005-06, FINTRAC made 168 case disclosures to law enforcement agencies, to CSIS and to counterpart foreign financial intelligence units. The aggregate value of the transactions reported in those disclosures amounts to just over \$5 billion, more than double the \$2 billion disclosed last year. The average value of transactions disclosed, per case, doubled this year. Ten per cent of our cases each involved transactions valued at more than \$50 million, and a number of those cases involved suspected transactions valued in the hundreds of millions of dollars.

There are a number of factors that contribute to the overall success of FINTRAC. First, Parliament gave us a sound mandate, authorizing our disclosures to law enforcement and national security agencies when we uncover suspected money laundering and terrorist activity financing. Another important factor is that the private sector organizations that are covered by our initiative have made a strong commitment to help make the initiative a success and have willingly and constructively implemented the measures needed to ensure compliance with the requirements of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*.

FINTRAC has also committed itself to forging strong relationships with the other key elements of the anti-money laundering regime: law enforcement, CSIS and other government departments. All of these have played important roles in our successes.

I also want to mention some important factors that are internal to our organization. From the beginning we strove to attract the best and the brightest people to help us build the Centre. Their innovation, dedication to the task, and unfaltering focus on results have brought us to where we are today, and will carry us forward into the future. FINTRAC's strong technology team has provided us with state-of-the-art systems to facilitate and support our work and has made us the envy of our counterpart organizations around the world.

Looking to the future, Canada's anti-money laundering and anti-terrorist financing arrangements will need to evolve to keep abreast of emerging challenges and rising international standards in this domain. FINTRAC is committed to making a strong contribution to that evolution.



Horst Intscher
Director

This year, FINTRAC made 168 case disclosures of financial intelligence to law enforcement agencies and to CSIS. The total value of the disclosed transactions reached just over \$5 billion, two and a half times the level of last year. The increasingly complex cases we disclose are able to pinpoint new suspects and financial transactions, and often trigger new investigations or provide significant input into ongoing investigations or prosecutions.

The main contributors to our success in 2005-06 were the expertise of our staff, our growing data holdings, and the rigorous anti-money laundering/anti-terrorist financing regimes established by reporting entities. As well, law enforcement and security agencies are now frequently volunteering information to us, which can play a significant role in informing our intelligence and heightening its value to law enforcement.

We continued to build our national compliance program and made substantial progress in our national outreach initiatives. We conducted compliance examinations in all reporting sectors, and completed 10 additional information-sharing agreements with national and provincial regulators. Our staff increased the number of presentations, meetings and seminars to reporting entities, industry associations, regulators and law enforcement agencies.

In 2005-06, we successfully introduced the first stage of a new generation of systems. With the February launch of F2R—a streamlined, online reporting mechanism—our reporting entities now receive immediate feedback on the quality of reporting, an improvement that also benefits FINTRAC.

This year, we shared with our partners both here in Canada and internationally what we have learned about typologies and patterns that reveal money laundering. We have also made considerable progress in identifying global terrorist financing concerns.

FINTRAC's international role underlines our commitment to creating and maintaining a powerful and knowledgeable global network to fight money laundering and terrorist activity financing. In 2005-06, we signed 10 more information-sharing agreements with foreign financial intelligence units (FIUs), bringing the total number to 30. To enhance the exchange of information and expertise among foreign partners, and to help develop the capacity of some emerging FIUs, we participated in training and development initiatives.

In 2005-06, we continued to support the Egmont Group, an international forum for information exchange and capacity building, with a worldwide membership of more than 100 FIUs. FINTRAC's Director chaired the Transition Sub-committee of Egmont to lead the group

towards becoming a more sustainable and permanent institution. Egmont will thereby be better equipped to advance international anti-money laundering efforts and anti-terrorist financing efforts.

FINTRAC'S THREE KEY PRIORITIES FOR 2005-06

1. **Deliver timely and high-quality financial intelligence to law enforcement and national security agencies, and foreign financial intelligence units.**

Increasingly effective financial intelligence analysis, and case disclosures that are widely accepted and used in investigations by law enforcement and national security agencies.

2. **Ensure compliance with the PCMLTFA.**

Promote and facilitate compliance with the law by reporting entities and detect and deter non-compliance. This will be accomplished through awareness programs, the monitoring of data quality, examinations, and by taking appropriate remedial action when non-compliance is detected.

3. **Disseminate strategic information on money laundering and terrorist activity financing to partners, stakeholders and the general public.**

Provide strategic intelligence, advice and analysis that enhance awareness and understanding of money laundering and terrorist activity financing in Canada, and inform the development of effective Canadian and multilateral counter-strategies.

FINTRAC AT A GLANCE

Our Main Objective

To facilitate the detection, prevention and deterrence of money laundering, the financing of terrorist activities and other threats to the security of Canada, by making case disclosures of financial intelligence to the appropriate law enforcement agency, CSIS, or other agencies covered by our legislation, while ensuring the protection of the personal information under our control.

Our Legislation

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

Our Principal Activities

- Receive and analyze financial transaction reports submitted by reporting entities in accordance with the legislation and regulations, and information from international and domestic partners and from the general public
- Research and analyze reports and data from a variety of information sources that shed light on trends and patterns in financial crime
- Ensure compliance of reporting entities with the legislation and regulations
- Enhance public awareness and understanding of money laundering
- Protect the security of personal information under our control



Our Principal Products

- Disclosures of financial intelligence pertaining to suspected cases of money laundering, terrorist activity financing or threats to the security of Canada
- Information and expertise to support global and domestic strategies against money laundering and terrorist financing
- Enhanced detection and deterrence of money laundering and terrorist activity financing in the financial sector

Our Relationships

Domestic:

- Reporting entities, such as banks and other financial institutions and financial intermediaries
- Financial industry associations
- National and provincial financial regulators
- RCMP, provincial and municipal police forces
- Canadian Security Intelligence Service (CSIS)
- Canada Border Services Agency (CBSA)
- Canada Revenue Agency (CRA)
- Department of Finance
- Department of Justice
- Public Safety and Emergency Preparedness Canada (PSEPC)
- Foreign Affairs Canada (FAC)
- Other government departments such as Privy Council Office, Treasury Board, etc.

International:

- Foreign financial intelligence units (FIUs)
- Egmont Group of FIUs
- Other international organizations such as the Financial Action Task Force (FATF), the World Bank, the International Monetary Fund and the United Nations Global Programme against Money Laundering (UNGPMML)

Delivering High-Quality Financial Intelligence

The total dollar value of the transactions in FINTRAC's 168 case disclosures this year was just over \$5 billion, more than double the transaction value reached last year. This continuing growth in the value and complexity of our case disclosures emphasizes FINTRAC's unique role as the sole Canadian agency mandated to collect a variety of financial transaction reports from a wide range of reporting entities. Our ability to detect and trace the connections in complex webs of suspect financial transactions is owing to this unique overview we have of money movements nationally and internationally.

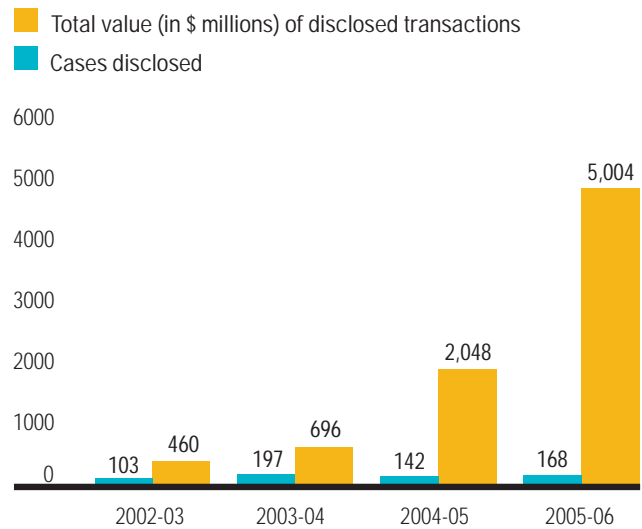
Our Case Disclosures for 2005-06

- 168 case disclosures
- 134 were for suspected money laundering
- 33 were for suspected terrorist activity financing and/or other threats to the security of Canada
- 1 case disclosure involved both suspected money laundering and suspected terrorist activity financing and/or threats to the security of Canada

Of the 168 case disclosures we made this year, 134—worth some \$4.75 billion—were related to suspected money laundering.

The total value of the transactions included in disclosures of suspected terrorist activity financing and other threats to the security of Canada was approximately \$256 million. One of these cases also gave rise to suspicions of money laundering.

Disclosures and the Value of Financial Transactions



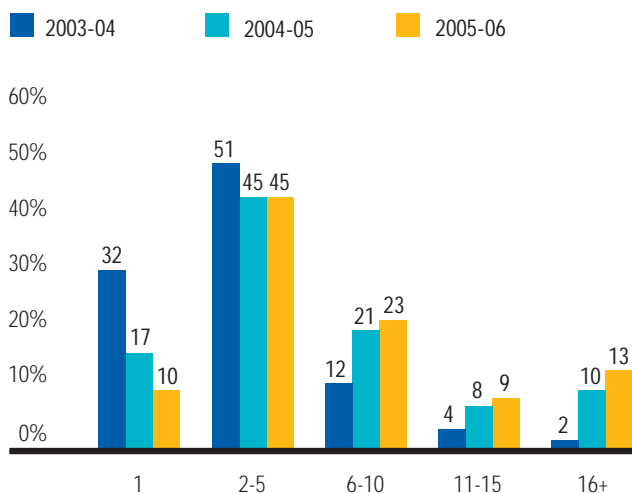
On average, each case disclosure involved a total of 261 transactions valued at \$29.8 million. Last year, the average was 136 transactions valued at \$14.4 million. By way of comparison, the average value of case disclosures in 2003-04 was \$3.5 million.

Notable this year was that 16 of FINTRAC's case disclosures involved transactions totalling in excess of \$50 million each.

The increasingly complex and detailed picture of suspect money movements that our case disclosures provided to investigators and prosecutors is demonstrated by the increase in transactions, the number of reporting entities represented, and the total dollar value of the suspect transactions involved in each disclosure. As the following graph indicates, the average number of reporting entities involved in each case disclosure has also seen a year-over-year rise.

Number of Reporting Entities Represented in Case Disclosures

Percentage of Case Disclosures



In 2005-06, the percentage of our case disclosures that involved transactions undertaken at eleven or more separate reporting entities continued to rise, from six per cent in 2003-04 to twenty-two per cent in 2005-06. This emphasizes

the value of a single, national agency that can make the connections between financial transactions across and among the various reporting entity sectors, be they banks, credit unions, foreign exchange dealers or real estate brokers.

The growth in the scope of our case disclosures is the result of a combination of internal and external factors. As a deliberate strategy, our analysts focused on identifying suspected large-scale money laundering and terrorist activity financing networks and on deepening their knowledge of money laundering and terrorist financing trends and typologies. We continued to expand our financial information holdings and to improve the sophistication and thoroughness of our analytical processes. Increased automation and standardization of analytical processes allowed analysts to sift through larger volumes of data with greater speed.

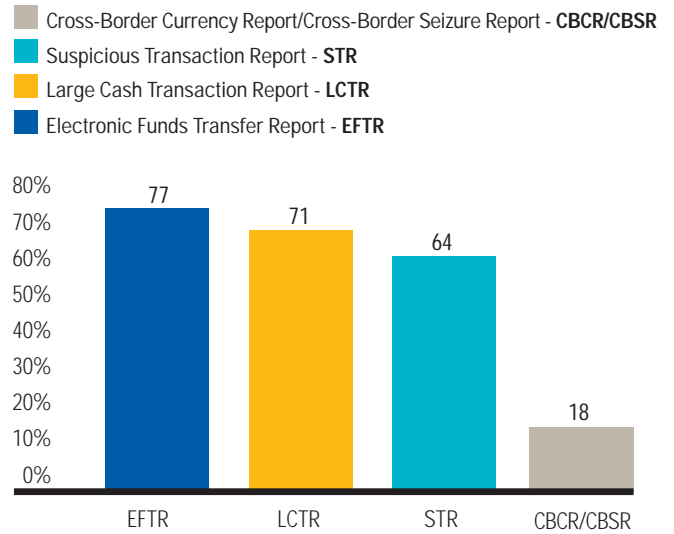
Our partners, too, have played a significant role. Canadian financial institutions and other financial intermediaries are becoming more effective in detecting suspicious transactions. Their effectiveness in increasing the number, and improving the quality, of suspicious transaction reports (STRs) was reflected in the fact that STRs figured in 64 per cent of our disclosures this year, up from 55 per cent in the previous year. The number of STRs also increased dramatically from 19,113 in 2004-05 to this year's total of 29,367.

Of equal importance, we received more information from law enforcement and national security agencies. This information is valuable in helping analysts zero in on suspected cases of illegal money movement in support of current investigations and law enforcement priorities. As well, feedback from our disclosure recipients indicates that our financial intelligence is supplying new investigative leads, identifying new suspects and supporting prosecutions.

We are encouraged that, in a relatively short period of time, our contributions are being reflected more and more in investigations, prosecutions and charges. It took time to produce these results, given that money laundering and terrorist activity financing cases are often complex and can take years to come to fruition.

Over the past year, we enhanced our ability to track the international dimension of suspicious criminal money flows, thanks in part to additional information exchanged with foreign financial intelligence units (FIUs). This year, FINTRAC provided 28 money laundering case disclosures to foreign FIUs with which we have agreements to share information.

Percentage of Case Disclosures Supported by Each Type of Report, 2005-06



The percentages in this graph do not add to one hundred because FINTRAC disclosures often contain multiple types of reports.

Building a Case for Disclosure

Every day, we receive reports on suspicious transactions, reports of large cash transactions and international electronic funds transfers of \$10,000 or more. We also receive information volunteered to us by police and CSIS as well as cross-border currency reports and currency seizure reports from CBSA. Our analysts mine all this data—and other information sources to which we have access—to identify patterns of financial activity, to uncover connections among parties and associations among people and businesses linked to the patterns of suspected money laundering and terrorist activity financing. It can be a complex undertaking, with some alleged criminals using 15 or more financial entities to spread their money laundering activity around in an attempt to evade detection.

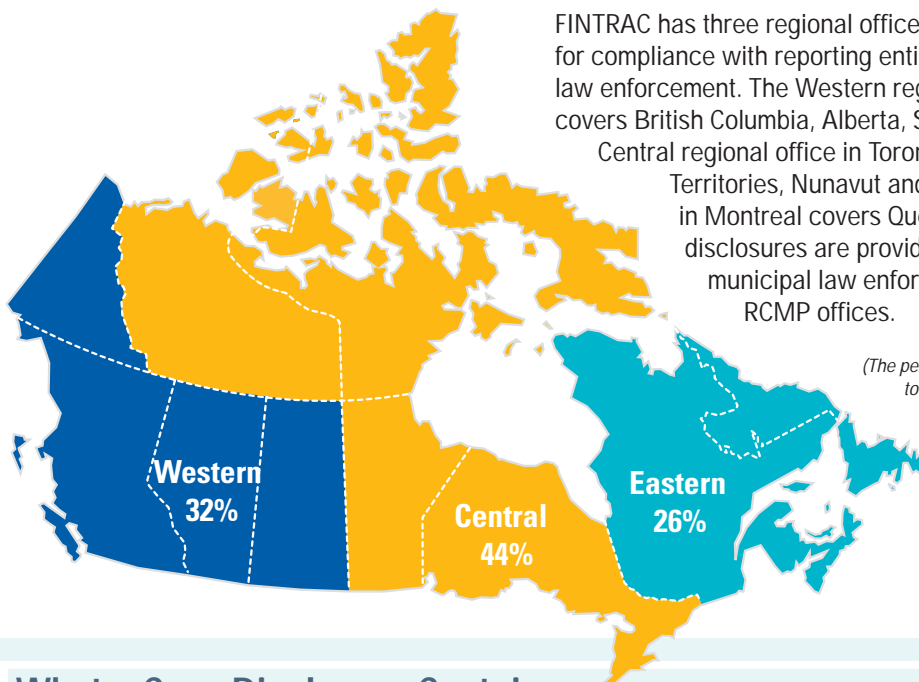
Once we determine that there are reasonable grounds to suspect that the information would be relevant to the investigation or prosecution of a money laundering and/or terrorist activity financing offence and/or threats to the security of Canada, FINTRAC must disclose “designated information” to the appropriate police force or to CSIS. A formal disclosure package is then developed, along with a link chart (see example on p. 14)

illustrating the movement of the suspected funds and the chief participants and/or businesses involved. 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, or when the information is also determined to be relevant to certain provisions of the *Immigration and Refugee Protection Act*

We may also disclose to a foreign financial intelligence unit with which there is an information-sharing agreement, when there are reasonable grounds to suspect money laundering or terrorist activity financing.

Regional Distribution of Money Laundering Case Disclosures, 2005-06



FINTRAC has three regional offices with responsibilities for compliance with reporting entities, and for liaison with law enforcement. The Western regional office in Vancouver covers British Columbia, Alberta, Saskatchewan and Yukon. The Central regional office in Toronto covers Manitoba, the Northwest Territories, Nunavut and Ontario. The Eastern regional office in Montreal covers Quebec and Atlantic Canada. Case disclosures are provided to provincial, regional and municipal law enforcement agencies, including RCMP offices.

(The percentages total greater than 100 per cent due to some disclosures having gone to recipients in more than one region.)

What a Case Disclosure Contains

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

- 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(s) including the amount and type of currency or monetary instruments involved
- Transaction, transit and account number(s)
- Name of importer or exporter, in the case of importation or exportation of currency or monetary instruments
- 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

The disclosure may contain publicly available information about transactions, persons or entities contained in the report.

In addition, if police or CSIS wish to obtain the Centre's full case analysis, they may seek a production order from a court. As of March 31, 2006, FINTRAC had received nine production orders issued under the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*.

Sanitized Money Laundering Case

The link chart of a money laundering case, (see pp. 14-15), with details changed or deleted for security and privacy reasons, demonstrates what FINTRAC includes in a case disclosure to law enforcement. The chart illustrates how complex and tangled money laundering schemes can be.

In this case, a foreign financial intelligence unit detected suspected money laundering activity linked to an import/export business and advised FINTRAC. Through analysis of transactions and other sources of information, we were able to uncover and link three separate clusters of suspicious financial transactions into a larger financial network. The more we kept digging, the more elaborate the scheme appeared. These separate financial clusters can be found on the chart and are identified in **Boxes A, B** and **C**.

Box A *(please see p. 15, top right hand corner)*

A foreign financial intelligence unit (FIU) advised FINTRAC of a money laundering investigation of two individuals, and a business involved in the wiring of funds between accounts, within the same financial institution located in their own country. The individuals provided Canadian addresses and identification and were described as Canadian by the foreign FIU.

The foreign FIU reported that the business—referred to in the chart as **Company 1** in **Box A**—would wire funds through several foreign reporting entities to an account at a financial institution in their country. Two Canadians held power of attorney over this account. The funds would then be further transferred to another account at the same financial institution. This account was held by the two individuals identified by the foreign FIU as Canadian. The foreign FIU deemed this whole activity suspicious. No other information could be found by the foreign FIU regarding **Company 1**.

After receiving the information from the foreign FIU, FINTRAC searched our database. We found reports of financial activity involving the two individuals. We also found transactions involving **Company 1**, the company identified by the foreign FIU.

According to the transactions in our database, **Company 1** wired several millions of dollars to multiple companies in Canada. As shown in **Box A** and **Box B**, **Company 1** wired funds to **Companies 2, 3, 4**, and to multiple other companies, all located in Canada. One of the principal recipients of these electronic funds transfers was a business located in Canada, noted on the chart as **Company 4** in **Box B**.

Box B *(please see p. 14, top left hand corner)*

A search of open sources yielded very little information on **Company 1**, and nothing on **Company 4**. These searches were conducted to obtain contextual information on the nature of these businesses, and to assess what might be the underlying business relationship or rationale for these transactions.

We found no open source information on **Company 4** in the way of advertising, telephone directory information, or a company Web site. However, we were able to confirm that this company was incorporated in Canada.

As a result of our analysis of the financial transactions involving **Company 4**, we found a suspicious transaction report filed by a Canadian financial institution. The reporting institution reported to FINTRAC activity it deemed suspicious with regard to the business accounts held by **Company 4**. The reporting entity stated:

- The company was an import/export business
- The accounts were opened several years ago and were relatively dormant
- The dollar value of wire transfers received into the two business accounts were steadily increasing
- Over a short period, millions of dollars were wired to the accounts held by this business with no rationale as to why the increase occurred
- The number of wires received from various foreign companies originated from a country with weak anti-money laundering controls

Box C *(please see p. 15, lower right hand corner)*

Following a search of our transactional database on **Company 7**, we found a suspicious transaction report filed by another Canadian reporting entity on the two individuals in Canada identified in the lower right corner of the chart in **Box C**. The STR was submitted as a result of the suspicions raised regarding the activity of the accounts held by the two individuals. The reporting entity stated that:

Over a period of five months, the two individuals received fourteen wire transfers from four different companies, **Company 7** being one of them. Attempts were made to contact the individuals, but their mail was returned and the phone number provided was incorrect. The reporting entity wanted to question the couple regarding the recent financial activity involving their accounts. The reporting entity refused the receipt of several wire transfers for the couple. As a result, one of the Canadians appeared at the reporting entity and claimed that the funds were owed to him from his business overseas.

When asked about the wires received from the various foreign companies, he did not know the companies or why they were sending the payments. It is unusual for a customer to receive funds from multiple businesses and not be able to identify the businesses or why funds were being sent. It is also unusual for a new customer not to come to the financial institution over a seven-month period.

We also received voluntary information from a Canadian law enforcement agency on the two individuals in Canada. It was suspected that they were using their personal accounts to launder the proceeds of crime.

As a result of the information provided by the reporting entity, we conducted further research on the potential business relationship between **Company 1** and **Company 4**, now identified as an import/export business. We found that **Company 1** was not in the business of purchasing or selling the product it purported to, nor to anything remotely associated with that industry. Therefore, the level of financial activity conducted between **Company 1** and **Company 4** was suspect and required further attention.

Through further analysis, we also found two other companies operating at the same address as **Company 4**. They are **Companies 5** and **6** and they form part of the second cluster of financial transactions found in **Box B**. In fact, when an address for one business changed, so did the addresses for the other businesses. The addresses for these three companies changed three times over a four-year period.

Wire transfers received by **Company 5** were received from the same foreign country with weak anti-money laundering controls. We found that **Company 5** and **Company 6** shared the same director.

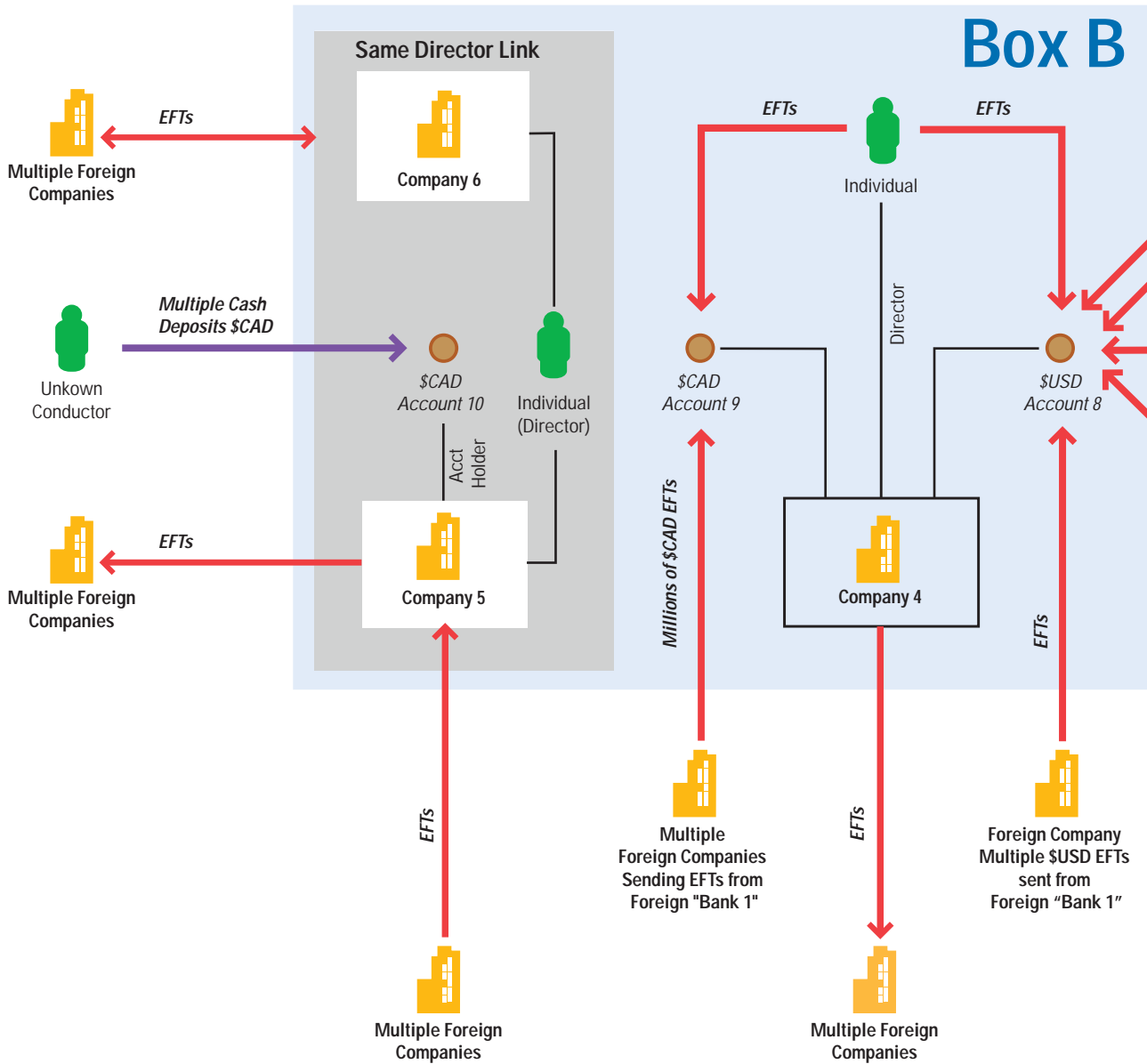
Company 7, located in the center of the chart, is the financial link between the three clusters of financial activity making up the larger network.

Company 7 sent wire transfers to **Company 4**. **Company 7** also sent wire transfers to an account held by two individuals in Canada. **Company 7** sent wire transfers to **Company 2**, which was also a recipient of wire transfers from **Company 1**.









FINTRAC Sanitized Money Laundering Case

Total Value of Transactions \$21,207,688.48 USD and \$2,269,231.73 CAD

Address Link



LEGEND

-  Company
-  Subject of CDN Law Enforcement Voluntary Information
-  Electronic Funds Transfer (EFT)
-  Account
-  Subject of CDN Law Enforcement Voluntary Information
-  Transaction detail provided in Foreign Query
-  Individual
-  Cash Deposit

Ensuring Compliance with the Legislation

In fulfilling our mandate to detect suspicious financial transactions, FINTRAC's success continued to depend on the complementary efforts of Canada's financial institutions and financial intermediaries. Their rigorous implementation of anti-money laundering/anti-terrorist financing regimes forms a strong deterrent to those who would launder and conceal illicit funds through legitimate channels.

Since the Centre was created, a key goal has been to assist financial entities and intermediaries in understanding and meeting their obligations under the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* and associated regulations.

The production of timely, high-quality financial intelligence is dependent on reporting entities fulfilling their obligations to report and ensuring that reported data is of a high quality. In Canada, there are hundreds of thousands of entities and individuals that, depending on the transactions conducted, could fall within the ambit of the Act's reporting, client identification and record-keeping requirements.

FINTRAC's Compliance Approach

A cooperative, risk-based approach remains the cornerstone of FINTRAC's compliance program. Using our risk-based approach, we identified sectors or individuals with a high risk of non-compliance and then focused on these entities.

Our compliance activities continue to build on the relationships and awareness established within all reporting entity sectors. We feel our compliance activities were more effective in 2005-06 because reporting entities had a better understanding of their obligations under the Act.

Policy Interpretation

Ensuring the proper interpretation of legislative requirements is essential to an effective compliance program. On a daily basis, we continued to ensure that our regional compliance officers across Canada were supplying a consistent interpretation of the Act and Regulations. In addition, two more FINTRAC Interpretation Notices (FINs) were developed this year, addressing the securities and accountants sectors.

Quality, Timing and Volume Monitoring

We spent a considerable part of the year redesigning our data quality capabilities to align with the new reporting systems being offered to reporting entities.

We can now provide instantaneous feedback to reporting entities when they submit reports and advise them of recurring data quality issues. This, in turn, allows us to enhance the quality of data received during the year by facilitating early detection of data quality problems, and allowing for increased feedback to reporting entities on their reporting activities.

This year, the existing reporting mechanisms were streamlined into one secure Web site called F2R. This new system provides a user-friendly method to prepare and submit reports to FINTRAC.

As the bar graph on page 17 illustrates, there has been a steady growth in the volume of reports received by FINTRAC since 2001-02. The Centre currently has some 37 million reports in its database.

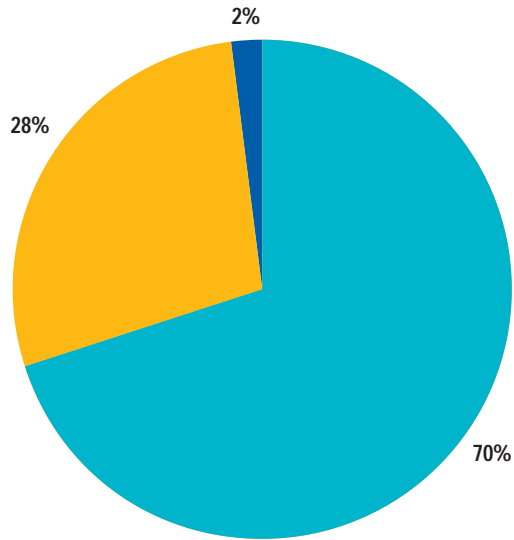
Examinations

Using a variety of techniques, we conducted examinations in all reporting entity sectors during 2005-06. As a prerequisite to conducting examinations, FINTRAC's compliance officers must undergo rigorous training.

This year, FINTRAC conducted 196 on-site examinations. FINTRAC also entered into an additional 10 compliance information-sharing agreements, or memoranda of understanding (MOU), with both national and provincial regulators. FINTRAC's MOU partners conducted a further 96 examinations, which helped to lessen the regulatory burden placed on reporting entities by limiting duplication of the examinations performed on them.

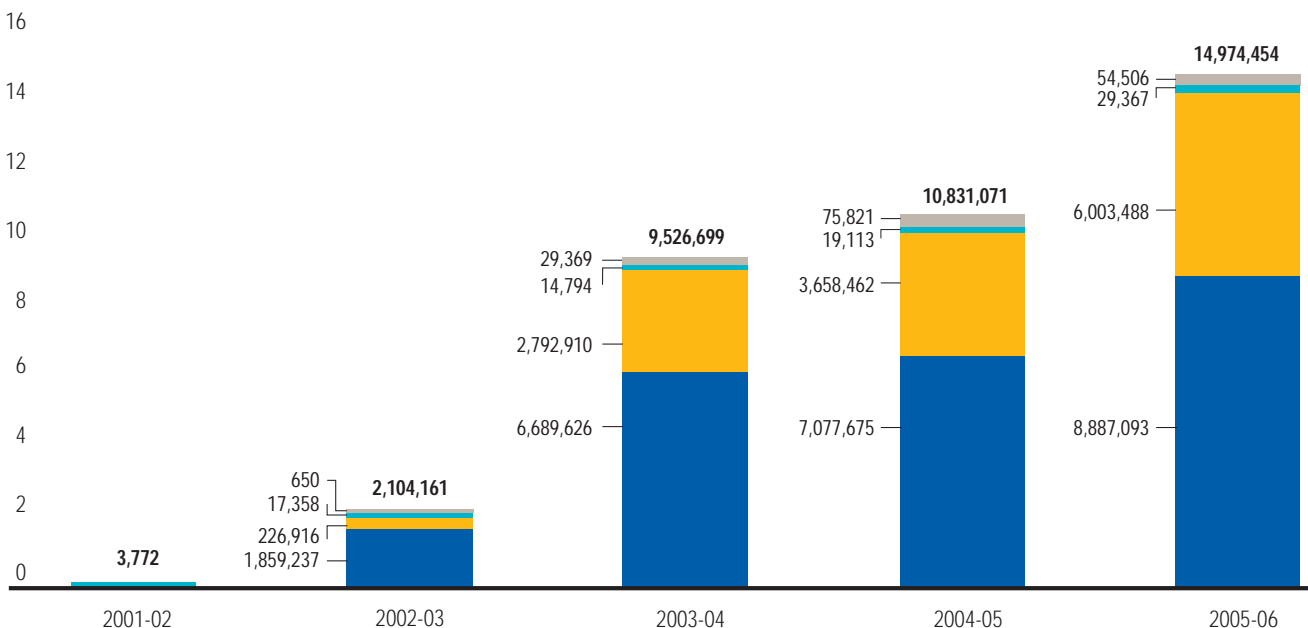
Suspicious Transaction Reports by Sector 2005-06

- Financial Entities (banks, credit unions, caisses populaires, trust and loan companies)
- Foreign Exchange Dealers and Money Services Businesses
- Others (casinos, real estate, securities dealers and others)



Reports Received by Fiscal Year and Type (millions)

- Cross-Border Currency Report/Cross-Border Seizure Report - CBCR/CBSR
- Suspicious Transaction Report - STR
- Large Cash Transaction Report - LCTR
- Electronic Funds Transfer Report - EFTR



Disclosures of Non-Compliance to Law Enforcement

FINTRAC's examination process has clearly demonstrated that the vast majority of reporting entities want to comply with their legislative obligations. In all our examinations, we have found only a small number of entities with serious compliance deficiencies. Where a reporting entity makes no demonstrable effort to resolve the deficiencies identified by FINTRAC, the Centre can choose to disclose such a case of non-compliance to law enforcement for investigation and prosecution. In 2005-06, FINTRAC disclosed three cases of non-compliance.

Who must report

- Financial entities of all types (banks, credit unions, etc.)
- Life insurance companies, brokers or agents
- Securities dealers, portfolio managers, provincially authorized investment counsellors
- Foreign exchange dealers
- Money services businesses (including alternative remittance systems, such as Hawala, etc.)
- Crown Agents accepting deposit liabilities and/or selling money orders
- Accountants/ accounting firms, real estate brokers/ sales representatives, in certain client-related activities
- Casinos (except some temporary charity casinos)
- Individuals transporting large sums in or out of the country (via CBSA)

What is reported

- Suspicious transactions related either to money laundering or to terrorist activity financing regardless of dollar value
- The existence of terrorist property in their possession or control, or information about a transaction or proposed transaction in respect of such property
- International electronic funds transfers involving \$10,000 or more
- Large cash transactions of \$10,000 or more
- Cross-border movements of \$10,000 or more in currency or monetary instruments

Disseminating Strategic Information

A continuing task of a financial intelligence unit such as FINTRAC is to undertake strategic analysis to identify patterns, typologies and trends that characterize money laundering and/or terrorist activity financing. Through analysis of our case disclosures and the thousands of associated reports, we can support the work of policy makers as well as our domestic partners in law enforcement and national security, the financial community and international counterparts.

FINTRAC's increasing ability to produce macro-analytical information relies on a number of factors. The analysis of our ever-growing body of tactical financial intelligence disclosures affords us an expanded view of suspected criminal money movements. The considerable range of information contained in our data holdings yields cumulative insights derived from five years of collecting financial transaction reports and identifying those that are suspicious. We are also noting a year-over-year maturing in our ability to analyze and mine information from a variety of sources.

Macro-Analysis of Our Cases

In 2005-06, through macro-analysis of our case disclosures and the associated transaction reports, we gained insights into suspected fraud-related and illegal drug-related money laundering cases, as well as suspected terrorist financing activity. We shared what we found about patterns and characteristics of these cases with our federal partners, the reporting entity sectors and law enforcement.

The financial transactions in our drug-related cases were cash intensive and very often of a significant dollar value. This financial activity frequently involved the use of foreign currency exchanges, casinos, and the physical or electronic movement of funds into, or out of, Canada.

Multiple, repeat deposits of cash, cheques or bank drafts, as well as multiple repeat exchanges of currency, were observed. This activity was often brought to our attention through the filing of suspicious transaction reports by the financial reporting entities.

Through our work with reporting entities, such as banks, currency exchanges and casinos, these entities are sensitized to this type of activity and the suspicious transaction reports they send us play an important role in identifying money laundering.

Over the past several years, we have also uncovered some very large fraud cases, some of which are now entering the prosecution stage. Along with the large dollar amount these types of cases represent, it is interesting to note the complex efforts that criminals take to launder their profits. For this suspected criminal activity, we can usually identify certain common characteristics: significant movement of funds overseas, the use of multiple real and shell companies to spread and obscure the money trail, and funds funneled from multiple accounts to single accounts and then dispersed globally to multiple accounts.

Another characteristic, and one which often distinguishes these types of cases from suspected drug cases, is that there are fewer suspicious transaction reports. This suggests that these schemes are difficult to detect as they involve complex, multiple non-cash transactions in foreign jurisdictions.

On the terrorist activity financing side, we observed that a large percentage of our case disclosures had an international component where funds were often wired to locations of specific concern. We also noted that many cases involved large cash deposits, made to personal or business accounts, which were often followed by international wire transfers. Criminal activities have also been associated with a number of our suspected terrorist activity financing disclosures. These activities include fraud and drug trafficking. Finally, non-profit organizations figure in approximately one third of our case disclosures related to terrorist activity financing and other threats to the security of Canada.

Sharing Strategic Intelligence with Foreign Financial Intelligence Units

The development and sharing of strategic intelligence internationally is vital to any effort to curb the power and profits of organized crime and terrorism.

FINTRAC plays an active part in domestic and international anti-money laundering/anti-terrorist activity financing experts groups, international typologies meetings and strategic analysis workshops. We encourage counterpart financial intelligence units to cast as broad a scope as possible to detect money movements across jurisdictions.

This past year we made twenty-eight disclosures to nine foreign financial intelligence units (FIUs). We also shared these disclosures with Canadian law enforcement, when we had the agreement of the foreign FIU to share their information.

In our analysis of these foreign disclosures we found certain common characteristics; namely, the over-complex movement of funds or unusual or unrealistic explanations for business account activity. We noted, in addition, the large and/or rapid movement of funds, for example multiple Electronic Funds Transfers (EFT) were received into an account and rapidly forwarded to another account (same day or within a relatively short period of time), and multiple, repeat EFTs (the same day or within a relatively short period of time) when a single transaction would have been more efficient.

Further analysis of the EFT reports in case disclosures to foreign FIUs showed that close to one third of the cases involved transactions that originated in a foreign country, and then transited through Canada for the ultimate benefit of a beneficiary in a foreign country.

Money laundering and terrorist activity financing are often international in scope. That is why Canadian law mandates the reporting of international EFTs of \$10,000 or more. FINTRAC is one of the few FIUs worldwide to receive such reports. We find wire transfer information very useful in identifying suspected money laundering and terrorist activity financing. Collecting EFT reports ensures the detection of a considerable amount of suspect activity and our analysis continues to demonstrate the benefit of capturing such reports.

Investing in Technology

Advanced information systems are vital to ensure the integrity and quality of the information in our database and to improve the effectiveness of FINTRAC's financial analysts. An analyst's skill in uncovering suspected criminal money is greatly enhanced by having advanced tools that can efficiently manage and mine our growing database, now containing more than 37 million reports.

In the past year, we launched a series of major systems upgrades. The first stage was the recent implementation of a more stable and streamlined data capture system for reporting entities. This new online tool, called F2R, will improve the quality of reports received, and, ultimately, the quality of the intelligence we produce. This first step in phasing in a new generation of systems signalled a significant milestone in FINTRAC's progress.

Another key component focuses on developing new applications to strengthen our analytical capabilities. With these improvements, we are enriching the quality of our case disclosures and broadening the scope of our strategic information.

Given the unique nature of our mandate, our high volume of data and our security concerns, no IT implementation at FINTRAC can be 'off the shelf.' Every new IT solution must be custom-made to our specifications. FINTRAC's IT team is highly trained and dedicated to the task.

In keeping with our commitment to the highest standards of information privacy and security, we upgraded the protections around our information holdings. Changes to our technology infrastructure further improved security monitoring and alert capabilities.

Contributing to Domestic Anti-Money Laundering Efforts

FINTRAC's most important product is timely, high-quality financial intelligence that assists law enforcement and CSIS with investigations and prosecutions. In 2005-06, we bolstered FINTRAC's core product by strengthening our interaction with our clients and sharpening our understanding of their intelligence requirements.

As part of our effort to improve our intelligence product, we included feedback forms in our case disclosures. We were pleased to note that the majority of responses confirmed the value of our intelligence. The comments we received indicated that our case disclosures expanded information on known targets, pointed to previously unknown targets, strengthened a case that was expected to be prosecuted, and provided information that was useful for intelligence purposes. In addition, the link chart included in the disclosures (see example, p.14) was considered very useful.

Feedback also indicated that the timeliness of disclosures was sometimes a concern. We are addressing this issue by reviewing our business process. As well, the additional funding earmarked for FINTRAC in the Federal 2006 Budget will allow us to devote more resources to achieving this goal.

To further raise awareness of our mandate and our intelligence product, we delivered over 500 presentations, training events or information sessions to police groups across the country. We also completed work on a best practices document designed to assist law enforcement in the provision of voluntary information, as this information supports analysis and can lead to more timely and relevant case disclosures.

FINTRAC also continued to contribute to national forums addressing public safety and national security issues. In the past year, for example, we participated in the National Coordinating Committee on Organized Crime.

One of the major developments in this reporting year was the June 2005 Government consultation paper entitled “Enhancing Canada’s Anti-Money Laundering and Anti-Terrorist Financing Regime.” The Department of Finance consulted stakeholders on these proposals, which are designed to ensure that Canada’s anti-money laundering and anti-terrorist financing regime remains strong and effective and continues to meet international obligations.

Many of the proposals, if implemented, would significantly affect FINTRAC’s business process. For example, one of the Financial Action Task Force Recommendations requires that businesses such as money services businesses and foreign exchange dealers (MSBs\FXs) be registered or licensed, in order to facilitate compliance with anti-money laundering/anti-terrorist financing requirements. As a result, one of the proposed amendments would require FINTRAC to act as Registrar for all MSBs\FXs in Canada.

Supporting the Global Fight against Money Laundering and Terrorist Financing

Money laundering and terrorist financing are crimes without borders, and FINTRAC’s international relationships help to place Canada on the world stage in the fight against crime. Many of our case disclosures have an international dimension.

Our links with foreign financial intelligence units (FIUs), and our membership in the Egmont Group, are key to our international effectiveness. Last year, we undertook a number of initiatives to facilitate the exchange of information between FIUs, and to help develop technological capabilities where appropriate. As part of these efforts, we signed new international memoranda of understanding to share

Agreements with Foreign FIUs in 2005-06

Argentina	Colombia	Israel	Slovenia
Aruba	Cyprus	Latvia	South Korea
Australia	Denmark	Mexico	Spain
Bahamas	El Salvador	Monaco	Ukraine
Belgium	Finland	Netherlands	United Kingdom
Barbados	France	Panama	United States of America
Bulgaria	Guernsey	Portugal	
Cayman Islands	Italy	Singapore	

information. We strongly supported the Egmont Group's evolution, and we put in place a strategy to provide assistance to foreign FIUs.

During 2005-06, we made twenty-eight disclosures to nine foreign financial intelligence units. Over 6,400 transactions were involved in these disclosures.

Memoranda of Understanding

During this fiscal year, with the concurrence of the Minister of Finance, we expanded our network by signing international memoranda of understanding with 10 FIUs, bringing the total of such agreements to 30.

Support to Egmont

Since FINTRAC first joined the Egmont Group, it has supported the organization's efforts to promote the worldwide cooperation of FIUs. This year, FINTRAC led the initiative to support Egmont's transition to a more sustainable and permanent organization that is able to provide support to its hundred or so members, to assist emerging FIUs, and to participate even more effectively with other international groups in combating money laundering and terrorist financing. FINTRAC has also participated in a number of Egmont's working groups.

Assistance to Financial Intelligence Units

During the year, we received several delegations from foreign FIUs eager to learn how FINTRAC operates, particularly in the areas of electronic receipt of information and of IT support for operations. To respond to this interest, we began building our assistance program to help FIUs, particularly those developing their operational capacities. We were helped in this by the Government of Canada's Counter-Terrorism Capacity Building Program. Funding for our program enabled us to provide an information workshop for FIU representatives from four countries, and to work with our American counterpart FinCEN, in developing a needs assessment for an important emerging FIU.

Meeting our Public Awareness Mandate

At FINTRAC, communications activities assist and advise reporting entities, and enhance public awareness in matters relating to money laundering and the financing of terrorist activities. Our Web site, the call centre, the pamphlets and information sheets, and of course, this annual report, are all vital elements of our communications effort.

Public Awareness Activities

During the year, FINTRAC Director Horst Intscher, delivered keynote addresses to the Money Laundering in Canada 2005 Conference in Vancouver and to the Wilton Park Conference on Combating the Financing of International Terrorism, at Wilton Park, U.K.

As a key component of our compliance program, FINTRAC conducts many outreach activities to reporting entities that take an educative approach to legislative obligations. This year, there were nearly 600 presentations, meetings and seminars with reporting entities and associations, involving 14,900 people, a significant increase over the number reached last year.

Parliamentary Appearances

FINTRAC's appearances before Parliamentary committees have given us the opportunity to explain our mandate and operations and to account for our results to Canadians.

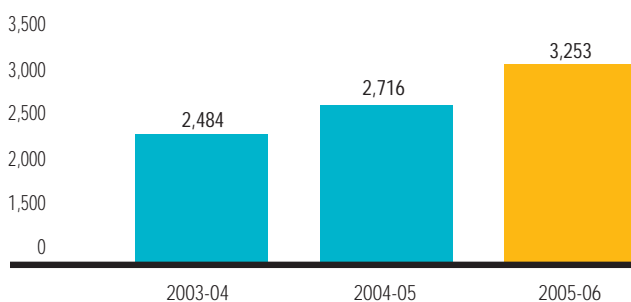
Annual Report

The Annual Report, available on FINTRAC's Web site, provides a vital communications link with the public, but more particularly with domestic partners and stakeholders, and with the larger international anti-money laundering and anti-terrorist financing network of individuals and institutions. Its purpose is to describe the Centre's operations, goals and achievements.

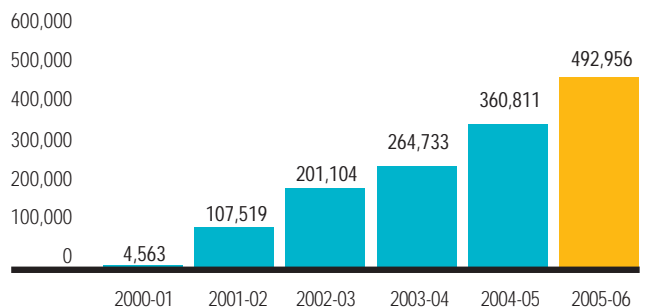
Guidelines Available in 2005-06

1. Backgrounder
2. Suspicious Transactions
- 3A. Submitting Suspicious Transaction Reports to FINTRAC Electronically
- 3B. Submitting Suspicious Transaction Reports to FINTRAC by Paper
4. Implementation of a Compliance Regime
5. Submitting Terrorist Property Reports
6. Record Keeping and Client Identification
- 7A. Submitting Large Cash Transaction Reports to FINTRAC Electronically
- 7B. Submitting Large Cash Transaction Reports to FINTRAC by Paper
- 8A. Submitting Non-SWIFT Electronic Funds Transfer Reports to FINTRAC Electronically
- 8B. Submitting SWIFT Electronic Funds Transfer Reports to FINTRAC
- 8C. Submitting Non-SWIFT Electronic Funds Transfer Reports to FINTRAC by Paper
9. Alternative to Large Cash Transaction Reports to FINTRAC

Call Centre Inquiries



Web Site Visits



Call Centre

The call centre is open for 12 hours a day from Monday to Friday, and information officers are available to answer general inquiries about FINTRAC's operations, as well as more specific questions about reporting requirements.

Pamphlets and Information Sheets

During this fiscal year, FINTRAC distributed 136,235 pamphlets, information sheets and other materials to a wide audience, which includes law enforcement agencies, reporting entities and the general public.

Web Site

FINTRAC's Web site is a crucial tool in providing support to reporting entities that are subject to the Act. A series of plainly written and frequently updated guidelines are particularly valuable, and assist specific sectors with reporting and other obligations. The Web site, which is constantly improved and refined, also acts as an information resource for government partners and players in the international anti-money laundering and anti-terrorist financing network, and helps to increase public awareness throughout the world. This year, there were 492,956 visits to our Web site, a 37 per cent increase over the previous year.

Maintaining Organizational Excellence

Over the past six years, we have seen our operations grow enormously in scope and complexity. Our continued effectiveness in meeting our mandate demands a high degree of adaptability to respond to changes in our working environment.

We realigned our organizational structure in the fall of 2005. A key aim was to strengthen our capacity by bringing our core operational functions of analysis and compliance together into one sector. The changes also streamlined the most senior levels of management and better integrated a number of planning and corporate management responsibilities.

People and Performance

The cornerstone of our enterprise is our dedicated workforce. Over the past year we furthered our investments in learning. We did this through initiatives targeting the skills that our employees need in order to meet new challenges in their area of work, whether their expertise is operational, administrative or managerial. We have also continued to reward excellence through a flexible model of human resources management that blends the best public service practices with innovative approaches from other sectors.

Profile of FINTRAC's Workforce

- 180 employees
- Average age of 38
- 51% female
- Visible minorities comprise 17%
- 62% have a private sector background
- 38% have a public sector background

Protecting Personal Information

The protection of the personal information that FINTRAC receives is integral to the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*, just as it is to the *Canadian Charter of Rights and Freedoms* by which the Act is informed. Consequently, the strictest security measures are woven into every aspect of our operations and are constantly reinforced.

Under the Act, FINTRAC is required to act at arm's length from law enforcement and other departments and agencies. There are well-defined limitations on the information FINTRAC can collect and disclose and we have adopted an array of security measures to protect the information under our control from unauthorized disclosure. The Act further specifies that reports and information received or collected by FINTRAC must be destroyed within a specified period.

All of FINTRAC's employees undergo enhanced reliability screening and must obtain a high security clearance.

It is evident that our measures for the protection of information are particularly stringent, as is the vigilance with which they are followed.

Threat and Risk Assessments, along with Privacy Impact Assessments are standard tools to ensure that our systems and processes meet or exceed government standards. We implement security in a layered approach, and this addresses all areas, from the physical environment, to personnel, to areas specifically related to safeguarding information.

FINTRAC's Activities in Protecting Personal Information

Physical Environment

In both Ottawa and the regions, a vigorous and integrated security program protects FINTRAC from unauthorized access to both facilities and electronic systems. Measures in place include intrusion detection monitoring and state-of-the-art firewalls. Internal electronic systems used by our analytical function are, of course, not accessible through the Internet. No one outside FINTRAC has access to our database.

Business Continuity Planning

Planning for protection of personal information in an emergency is essential in today's world. While most emergencies are likely to be as temporary and local as power outages, FINTRAC has strategies and individual sector plans in place to protect secure information in the unlikely event that more serious events occur.

Personnel/Information

Advanced authentication and biometric software control and monitor access to facilities and information. Access to our database is limited to those employees with the appropriate security clearance and those whose functions require them to have the information.

It is part of FINTRAC's staff training to ensure that every employee is fully aware of the responsibility to protect personal information, and of the procedures that must be followed in providing protection. All our staff members know that the penalties for improper disclosure of information are severe, and may include up to five years imprisonment and/or a fine of up to \$500,000.

We are committed to the protection of the privacy of Canadians, and we continue to exercise the greatest vigilance in taking every precaution to carry out that responsibility.

PLANNING FOR THE NEXT YEAR PRIORITIES FOR 2006-07

FINTRAC's achievements in the past year rested on our commitment to deliver useful and timely disclosures to law enforcement and CSIS, to a vigorous compliance program, and to the sharing of strategic intelligence with domestic and international partners. These pillars of our mandate will continue to be the yardstick by which we measure our success.

We must also ready ourselves for new challenges and opportunities in the coming year. Working with the Department of Finance and others, we are anticipating changes that may follow from a number of national and international developments.

The measures proposed in the Government's 2005 consultation paper and the 2006 Parliamentary Review of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* may result in enhancements to our domestic anti-money laundering regime.

The Government's commitment to bolster existing capacities to combat organized crime and terrorism was further underscored in the 2006 Budget. Along with the need to introduce strengthened legislation at the earliest opportunity, the Budget also emphasized Canada's responsibility to respond to global standards and risks.

Demonstrating leadership on the international stage is particularly important as Canada prepares to chair the Financial Action Task Force in July of 2006. The Forty plus Nine Recommendations of the Financial Action Task Force, or FATF, are the international standard for detecting and preventing

money laundering and the financing of terrorist acts. As FINTRAC's contribution to robust Canadian leadership on the international stage, we will be taking a strong role in supporting the Egmont Group and its promotion of enhanced cooperation and capacity building among international financial intelligence units (FIUs).

To strengthen our national regime and to meet our international commitments, we are ensuring our preparedness to implement new requirements. These changes may include an expansion in both the current list of information items that FINTRAC may initially disclose to law enforcement and intelligence agencies, and enhancements to the requirements for client identification, due diligence and record keeping. Further changes may also include the establishment of new reporting entity sectors and a registration system for money services businesses and foreign exchange dealers.

In consultation with the Department of Finance, FINTRAC will continue to examine longer-term issues and their implications. The emergence of new types of financial services creates the possibility of further avenues for concealing and moving illicit funds, and FINTRAC will continue to pay close attention and to offer operational advice on meeting these challenges. Some of the areas to be monitored include the use of White Label ATMs, Internet banking and e-money.

FINTRAC's Priorities for 2006-07

- Deliver timely and high-quality financial intelligence to law enforcement, CSIS and foreign financial intelligence units.
- Ensure compliance with the PCMLTFA.
- Disseminate strategic information on money laundering and terrorist activity financing to partners, stakeholders and the general public.

1. DELIVER TIMELY AND HIGH-QUALITY FINANCIAL INTELLIGENCE TO LAW ENFORCEMENT, CSIS AND FOREIGN FINANCIAL INTELLIGENCE UNITS.

ANTICIPATED RESULT: *Financial intelligence analysis and case disclosures that are widely accepted and used in investigations by law enforcement, CSIS and foreign financial intelligence agencies.*

AT FINTRAC, we will continue to improve our financial intelligence product.

In furthering that goal, we are bringing on-line a new generation of systems to support analysis of increased depth and breadth. We will continue to build our relationships with case disclosure recipients by working to understand their priorities and by keeping informed of their ongoing requirements. We have developed a feedback framework to receive and manage our disclosures, which will guide the development of our intelligence product to better serve investigators.

2. ENSURE COMPLIANCE WITH THE PCMLTFA.

ANTICIPATED RESULT: *Increased compliance with the law by reporting entities through more robust detection and deterrence of non-compliance. This will be accomplished through a risk-based compliance program comprised of awareness activities, the monitoring of data quality, compliance questionnaires and examinations, and by taking appropriate remedial action when non-compliance is detected.*

We will continue to broaden our work with the many individuals and businesses that have been identified as reporting entities to ensure compliance with the law. The work of financial entities and institutions to implement strong compliance regimes significantly enhances the vigilance and scrutiny at the front lines, where financial transactions take place. The vigorous application of the compliance program's key elements will continue to be essential to our success.

Future legislative and regulatory amendments may include the implementation of a money services business and foreign exchange business registration system, and the expansion of reporting entity sectors to include dealers in precious metals and stones, real estate developers, and notaries (in British Columbia). Other proposed measures include the enhancement of FINTRAC's compliance tools, including the establishment of a civil penalties regime for non-compliance.

With FINTRAC's current anti-money laundering/anti-terrorist financing regime, we will continue to promote compliance with legislative requirements by reporting entities across Canada. We will, as well, continue to provide outreach to new reporting entity sectors so that they know about, and comply with, any new requirements.

3. DISSEMINATE STRATEGIC INFORMATION ON MONEY LAUNDERING AND TERRORIST ACTIVITY FINANCING TO PARTNERS, STAKEHOLDERS, AND THE GENERAL PUBLIC.

ANTICIPATED RESULT: *Provide strategic intelligence, advice and analysis that enhance awareness and understanding of money laundering and terrorist activity financing, and that inform the development of effective Canadian and multilateral counter-strategies.*

We will continue to develop strategic intelligence products and to strengthen our relationships with key stakeholders. We will consult with reporting entities and with enforcement and intelligence agencies, to deliver strategic financial intelligence of interest to them.

Internationally, we will continue to strengthen working relationships with foreign financial intelligence units (FIUs) and to provide technical assistance to developing FIUs. In this task, we will work with our Canadian government partners, as well as with foreign FIUs, and international organizations such as the Egmont Group, the FATE, the World Bank, the International Monetary Fund and the United Nations Global Programme on Money Laundering.

As part of our legislated mandate, FINTRAC works to increase awareness of money laundering and terrorist activity financing. In addition to the many presentations we give across Canada, we use vehicles such as our Web site, publications and this annual report to provide information about these problems.

APPENDIX I

FINTRAC's Financial Statements

APPENDIX II

Glossary of Terms and Acronyms

APPENDIX III

FINTRAC's Business Process



FINTRAC



APPENDIX I

FINTRAC's Financial Statements

Unaudited
For the Year Ended March 31, 2006

Financial Transactions and Reports Analysis Centre of Canada

Management Responsibility for the Financial Statements

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2006 and all information contained in this report, rests with Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) management.

These statements have been prepared in accordance with Treasury Board Accounting Standards based upon generally accepted accounting principles, using management's best estimates and judgments where appropriate. 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 accompanying 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.

The transactions and financial statements of FINTRAC have not been audited.



Horst Intscher
Director
FINTRAC
Ottawa, Canada



Glynnis French
Deputy Director
Strategies and Partnerships
and Senior Financial Officer
FINTRAC
Ottawa, Canada

Financial Transactions and Reports Analysis Centre of Canada

STATEMENT OF OPERATIONS (Unaudited)

For the year ended March 31, 2006

(In dollars)	2006	2005
		(As restated, note 3)
OPERATING EXPENSES		
Salaries and employee benefits	19,776,933	19,986,169
Amortization of tangible capital assets	3,297,513	7,830,047
Accommodations	2,616,843	2,590,430
Repairs and maintenance	2,122,319	2,256,152
Professional and special services	2,106,956	2,461,213
Travel and relocation	1,064,808	633,896
Telecommunication services	735,104	746,664
Utilities, materials and supplies	407,998	316,531
Machinery and equipment	360,527	256,127
Loss on disposal and write-down of tangible capital assets	326,199	-
Information	253,064	210,226
Other expenditures	70,916	169,580
NET COST OF OPERATIONS	33,139,180	37,457,035

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

Financial Transactions and Reports Analysis Centre of Canada

Statement of Financial Position (Unaudited)

At March 31, 2006

(In dollars)	2006	2005 (As restated, note 3)
ASSETS		
Financial assets		
Accounts receivable and advances (note 5)	71,773	447,905
Non-financial assets		
Prepaid expenses	70,353	89,558
Tangible capital assets (note 6)	13,381,193	12,476,498
	13,451,546	12,566,056
TOTAL ASSETS	13,523,319	13,013,961
LIABILITIES AND EQUITY OF CANADA		
Liabilities		
Accounts payables and accrued liabilities	2,890,544	4,378,590
Vacation pay and compensatory leave	785,579	749,593
Employee severance benefits (note 7)	4,017,978	3,944,566
	7,694,101	9,072,749
Equity of Canada	5,829,218	3,941,212
TOTAL LIABILITIES AND EQUITY OF CANADA	13,523,319	13,013,961

Contractual obligations (note 8)

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

Financial Transactions and Reports Analysis Centre of Canada

STATEMENT OF EQUITY OF CANADA (Unaudited)

For the period ending March 31, 2006

(In dollars)	2006	2005 <small>(As restated, note 3)</small>
<hr/>		
EQUITY OF CANADA, BEGINNING OF YEAR	3,941,212	8,747,791
Net cost of operations	(33,139,180)	(37,457,035)
Current year appropriations used (note 4)	32,360,449	31,019,627
Refund of previous year expenditures	(80,333)	(106,085)
Change in net position in the Consolidated Revenue Fund (note 4)	1,527,420	398,314
Services received without charge from other government departments (note 9)	1,219,650	1,338,600
<hr/>		
EQUITY OF CANADA, END OF YEAR	5,829,218	3,941,212
<hr/>		

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, 2006

(In dollars)	2006	2005 (As restated, note 3)
OPERATING ACTIVITIES		
Net cost of operations	33,139,180	37,457,035
Non-cash items:		
Amortization of tangible capital assets	(3,297,513)	(7,830,047)
Loss on disposal and write-down of tangible capital assets	(326,199)	-
Services provided without charge	(1,219,650)	(1,338,600)
Variations in Statement of financial position:		
Decrease (Increase) in liabilities	1,378,648	(459,544)
Increase (Decrease) in accounts receivables and advances	(376,132)	166,213
Increase (Decrease) in prepaid expenses	(19,205)	89,558
Cash used by operating activities	29,279,129	28,084,615
Capital investment activities		
Acquisitions of tangible capital assets (note 6)	4,528,407	3,227,241
NET CASH PROVIDED BY GOVERNMENT	33,807,536	31,311,856

Tangible capital assets (note 6)

Contractual obligations (note 8)

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, 2006

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 Financial Information 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

The financial statements have been prepared in accordance with Treasury Board accounting policies, which are consistent with Canadian generally accepted accounting principles for the public sector.

Significant accounting policies are as follows:

(a) Parliamentary appropriations

FINTRAC is financed by the Government of Canada through Parliamentary appropriations. Appropriations provided to FINTRAC do not parallel financial reporting according to Canadian generally accepted accounting principles since appropriations are primarily based 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 4 provides a high-level reconciliation between the bases of reporting.

(b) Net cash provided by Government

FINTRAC operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by FINTRAC is deposited to the CRF and all cash disbursements made by FINTRAC are paid from the CRF. The net cash provided by Government is the difference between all cash receipts and all cash disbursements including transactions between departments and agencies of the Federal Government.

(c) Consolidated Revenue Fund

Change in net position in the Consolidated Revenue Fund is the difference between the net cash provided by Government and appropriations used in a year. It results from timing differences between when a transaction affects appropriations and when it is processed through the CRF.

(d) Expenses

Expenses are recorded on the accrual basis:

- Vacation pay and compensatory leave are expensed as the benefits accrue to employees under their respective terms of employment.
- Services provided without charge by other government departments for employer's contributions to the health and dental insurance plans are recorded as operating expenses at their estimated cost.
- Legal fees incurred and paid by FINTRAC to Justice Canada are recorded as operating expenses in the financial statements.

(e) Employee future benefits

- i. Pension benefits: Eligible employees participate in the Public Service Pension Plan, a multi-employer plan administered by the Government of Canada. The agency's contributions to the Plan are charged to expenses in the year incurred and represent the total Centre's obligation to the Plan. Current legislation does not require the Centre to make contributions for any actuarial deficiencies of the Plan.
- ii. Severance benefits: Employees are entitled to severance benefits under labour contracts or conditions of employment. These benefits are accrued as employees render the services necessary to earn them. The obligation relating to the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government as a whole.

(f) Accounts receivables

Accounts receivables are stated at amounts expected to be ultimately realized; a provision is made for receivables where recovery is considered uncertain.

(g) Tangible capital assets

All tangible capital assets and leasehold improvements having an initial cost of \$5,000 or more, are recorded at their acquisition cost. FINTRAC does not capitalize intangibles, works of art and historical treasures that have cultural, aesthetic or historical value, assets located on Indian Reserves and museum collections. Amortization of tangible capital assets is done on a straight-line basis over the estimated useful life of the tangible capital asset as follows:

Asset Class	Amortization Period
Machinery and equipment	5 years
Informatics hardware	3 years
Informatics software	3 years
Other equipment, including furniture	5 to 10 years
Leasehold improvements	Lesser of remaining lease term and 10 years

(h) Measurement uncertainty

The preparation of these financial statements in accordance with Treasury Board accounting policies, which are consistent with Canadian generally accepted accounting principles for the public sector, 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 preparation of these statements, management believes the estimates and assumptions to be reasonable. The most significant items where estimates are used are contingent liabilities, environmental liabilities, the liability for employee severance benefits and the useful life of tangible capital assets. Actual results could significantly differ from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the year they become known.

3. Change in accounting policy

The financial statements of the prior period have been restated to conform to new Treasury Board accounting policies issued in 2005-06. The liability for employee severance benefits is now recorded in FINTRAC's accounts and financial statements. This change in accounting policies resulted in an increase of \$181,802 to net cost of operations, an increase of \$3,944,566 to employee severance benefits liability and a net decrease of \$3,762,764 to Equity of Canada, at the beginning of year.

4. Parliamentary appropriations

FINTRAC receives most of its funding through annual Parliamentary appropriations. Items recognized in the statement of operations and the statement of financial position in one year may be funded through Parliamentary appropriations in prior, current or future years. Accordingly, FINTRAC has different net results of operations for the year on a government funding basis than on an accrual accounting basis. The differences are reconciled in the following tables:

(a) Reconciliation of net cost of operations to current year appropriations used:

(In dollars)	2006	2005
Net cost of operations	33,139,180	37,457,035
Adjustments for items affecting net cost of operations but not affecting appropriations:		
Add (Less):		
Services provided without charge	(1,219,650)	(1,338,600)
Amortization of tangible capital assets	(3,297,513)	(7,830,047)
Loss on disposal and write-down of tangible capital assets	(326,199)	-
Legal fees paid to Justice Canada	(415,506)	(485,243)
Refund of previous year expenditures	80,333	106,085
Increase in vacation pay and compensatory leave liability	(35,986)	(24,600)
Increase in employee severance benefits liability	(73,412)	(181,802)
	(5,287,933)	(9,754,207)
Adjustments for items not affecting net cost of operations but affecting appropriations:		
Add (Less):		
Acquisitions of tangible capital assets	4,528,407	3,227,241
Increase (Decrease) in prepaid expenses	(19,205)	89,558
Current year appropriations used	32,360,449	31,019,627

(b) Appropriations provided and used:

(In dollars)	2006	2005
Appropriations provided:		
Vote 30 – Operating expenditures	27,663,000	29,032,000
Vote 30a – Supplementary	-	69,237
Vote 5 – Transfer from Treasury Board	3,236,875	-
Vote 15 - Transfer from Treasury Board	-	813,000
Contributions to employee benefits plan	3,082,784	2,979,131
Less: Lapsed appropriations - Operating	(1,622,210)	(1,873,741)
Current year appropriations used	32,360,449	31,019,627

(c) Reconciliation of net cash provided by Government to current year appropriations used:

(In dollars)	2006	2005
Net cash provided by Government	\$ 33,807,536	31,311,856
Refund of previous year expenditures	80,333	106,085
Change in net position in the Consolidated Revenue Fund		
Variation in accounts receivable and advances	376,132	(166,213)
Variation in accounts payable and accrued liabilities	(1,488,046)	260,100
Legal fees paid to Justice Canada	(415,506)	(485,243)
Other adjustments	-	(6,958)
	(1,527,420)	(398,314)
Current year appropriations used	32,360,449	31,019,627

5. Accounts receivable and advances

(In dollars)	2006	2005
Receivables from other Federal Government departments and Agencies	60,743	413,449
Receivables from external parties	5,280	28,706
Employee advances	5,750	5,750
	71,773	447,905

6. Tangible capital assets

(In dollars)	2006 Cost			
	OPENING BALANCE	ACQUISITIONS	DISPOSALS AND WRITE-OFFS	CLOSING BALANCE
Machinery and equipment	852,059	12,395	231,352	633,102
Informatics hardware	17,296,481	379,261	4,175,570	13,500,172
Informatics software	10,275,645	973,714	1,915,186	9,334,173
Other equipment, including furniture	3,262,986	137,797	-	3,400,783
Leasehold improvements	5,684,118	30,076	-	5,714,194
Work in progress	1,921,040	2,995,164	-	4,916,204
	39,292,329	4,528,407	6,322,108	37,498,628

(In dollars)	Accumulated amortization			
	OPENING BALANCE	AMORTIZATION	DISPOSALS AND WRITE-OFFS	CLOSING BALANCE
Machinery and equipment	563,882	124,901	148,065	540,718
Informatics hardware	15,540,472	972,839	4,059,738	12,453,573
Informatics software	8,143,805	1,310,054	1,788,106	7,665,753
Other equipment, including furniture	1,271,216	321,307	-	1,592,523
Leasehold improvements	1,296,456	568,412	-	1,864,868
	26,815,831	3,297,513	5,995,909	24,117,435

(In dollars)	Net book value	
	2005	2006
Machinery and equipment	288,177	92,384
Informatics hardware	1,756,009	1,046,599
Informatics software	2,131,840	1,668,420
Other equipment, including furniture	1,991,770	1,808,260
Leasehold improvements	4,387,662	3,849,326
Work in progress	1,921,040	4,916,204
	12,476,498	13,381,193

Amortization expense for the year ended March 31, 2006 is \$3,297,513 (\$7,830,047 in 2005)

7. Employee benefits

(a) Pension benefits:

FINTRAC's employees participate in the Public Service Pension Plan, which is sponsored and administered by the Government of Canada. Pension benefits accrue up to a maximum period of 35 years at a rate of 2 percent per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Québec Pension Plan benefits and they are indexed to inflation.

Both the employees and the Centre contribute to the cost of the Plan. The 2005-06 expense amounts to \$3,082,784 (\$2,979,131 in 2004-05), which represents approximately 2.6 times the contributions made by employees.

The Centre's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor.

(b) Severance benefits:

FINTRAC provides severance benefits to its employees based on eligibility, years of service and final salary as per Treasury Board policy. These severance benefits are not pre-funded. Benefits will be paid from future appropriations. Information about the severance benefits, measured as at March 31, 2006 is as follows:

(In dollars)	2006	2005
Employee severance benefit liability, beginning of year	3,944,566	3,762,764
Expenses for the year	412,060	302,772
Benefits paid during the year	(338,648)	(120,970)
Employee severance benefit liability, end of year	4,017,978	3,944,566

8. Contractual obligations

The nature of FINTRAC's activities can result in some large multi-year contracts and obligations whereby FINTRAC will be obligated to make future payments when the services are received. FINTRAC has entered into lease agreements with Public Works and Government Services Canada for office space in 4 locations across Canada. The minimum aggregate annual payments for future fiscal years are as follows:

(In thousands of dollars)	2006
2006-2007	2,524
2007-2008	2,322
2008-2009	1,065
2009-2010	-
	5,911

9. Related party transactions

FINTRAC is related, as a result of common ownership, to all Government of Canada departments, agencies, and Crown corporations. FINTRAC enters into transactions with these entities in the normal course of business and on normal trade terms. Also, during the year, FINTRAC received services which were obtained without charge from other Government departments as presented below.

(a) Services provided without charge:

During the year FINTRAC received, without charge from other departments, the employer's contribution to the health and dental insurance plans in the amount of \$1,219,650 (\$1,338,600 in 2004-05). These services without charge have been recognized in the Centre's Statement of Operations. The Government has structured some of its administrative activities for efficiency and cost-effectiveness purposes so that one department performs these on behalf of all without charge. The costs of these services, which include payroll and cheque issuance services provided by Public Works and Government Services Canada and audit services provided by the Office of the Auditor General, are not included as an expense in FINTRAC's Statement of Operations.

(b) Payables and receivables outstanding at year-end with related parties:

(In dollars)	2006	2005
Accounts receivable with other government departments and agencies	60,743	413,449
Accounts payable to other government departments and agencies	175,606	256,865

10. Comparative information

Comparative figures have been reclassified to conform to the current year's presentation.

Glossary of Terms and Acronyms

Canada Border Services Agency (CBSA)

A federal government agency responsible for providing integrated border services that support national security priorities and facilitate the free flow of persons and goods, including animals and plants, which meet all requirements under the program legislation. www.cbsa.gc.ca

Canada Revenue Agency (CRA)

A federal government agency that administers tax laws for the Government of Canada and for most provinces and territories, as well as various social and economic benefit and incentive programs delivered through the tax system. www.cra.gc.ca

Canadian Security Intelligence Service (CSIS)

Canada's national security agency that has the mandate to investigate and report on threats to the security of Canada www.csis.gc.ca

Counter-Terrorism Capacity Building Program

Interdepartmental program administered by the Department of Foreign Affairs and International Trade that provides training, funding, equipment, technical and legal assistance to other states to enable them to prevent and respond to terrorist activity in a manner consistent with international counter-terrorism and human rights norms, standards and obligations.

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.

Cross-Border Currency Seizure Report

A report filed with FINTRAC by a CBSA officer who seizes cash or monetary instruments for which reporting obligations were not met.

Egmont Group of Financial Intelligence Units

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

Electronic Funds Transfer Report (EFTR)

A report that a reporting entity must file with FINTRAC with respect to 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. The FATF's purpose is to develop and promote policies, both at national and international levels, to combat money laundering and terrorist financing.

www.fatf-gafi.org

Financial Intelligence Unit (FIU)

A national governmental agency established to combat money laundering and terrorist financing. FIUs fulfill this function by collecting financial transactions and other information for the purpose of analysing and disclosing intelligence of financial information concerning suspected proceeds of crime or potential financing of terrorist activity.

FINTRAC Interpretation Notice (FIN)

A document that provides technical interpretations and positions regarding certain provisions contained in the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* and associated Regulations.

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 single transaction; or when it receives two or more smaller transactions of less than \$10,000, that total \$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.

Memorandum of Understanding (MOU)

A document that outlines each party's roles and responsibilities with regard to the sharing of information.

National Coordinating Committee on Organized Crime

A federal group composed of law enforcement agencies and federal, provincial and territorial policy makers. The Committee determines national policy priorities and assesses emerging concerns in the area of organized crime.

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 suspected money laundering and terrorist activity 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.

Reporting Entities (REs)

Entities that must report suspicious and certain other transactions to FINTRAC. Reporting entities include the following:

- financial entities
- life insurance companies, brokers, and agents
- securities dealers
- foreign exchange dealers
- money services businesses
- agents of the Crown that sell or redeem money orders
- accountants
- real estate brokers or sales representatives; and
- certain casinos

Royal Canadian Mounted Police (RCMP)

Canada's national police force. www.rcmp.gc.ca

Suspicious Transaction Report (STR)

A report that a reporting entity must file with FINTRAC with respect to 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 a reporting entity must file with FINTRAC when it has in its possession or control property that it knows is owned or controlled by or on behalf of a terrorist group. This includes information about any transaction or proposed transaction relating to that property. This report is triggered by a requirement in the *Criminal Code* that requires the reporting of such information to the RCMP and CSIS.

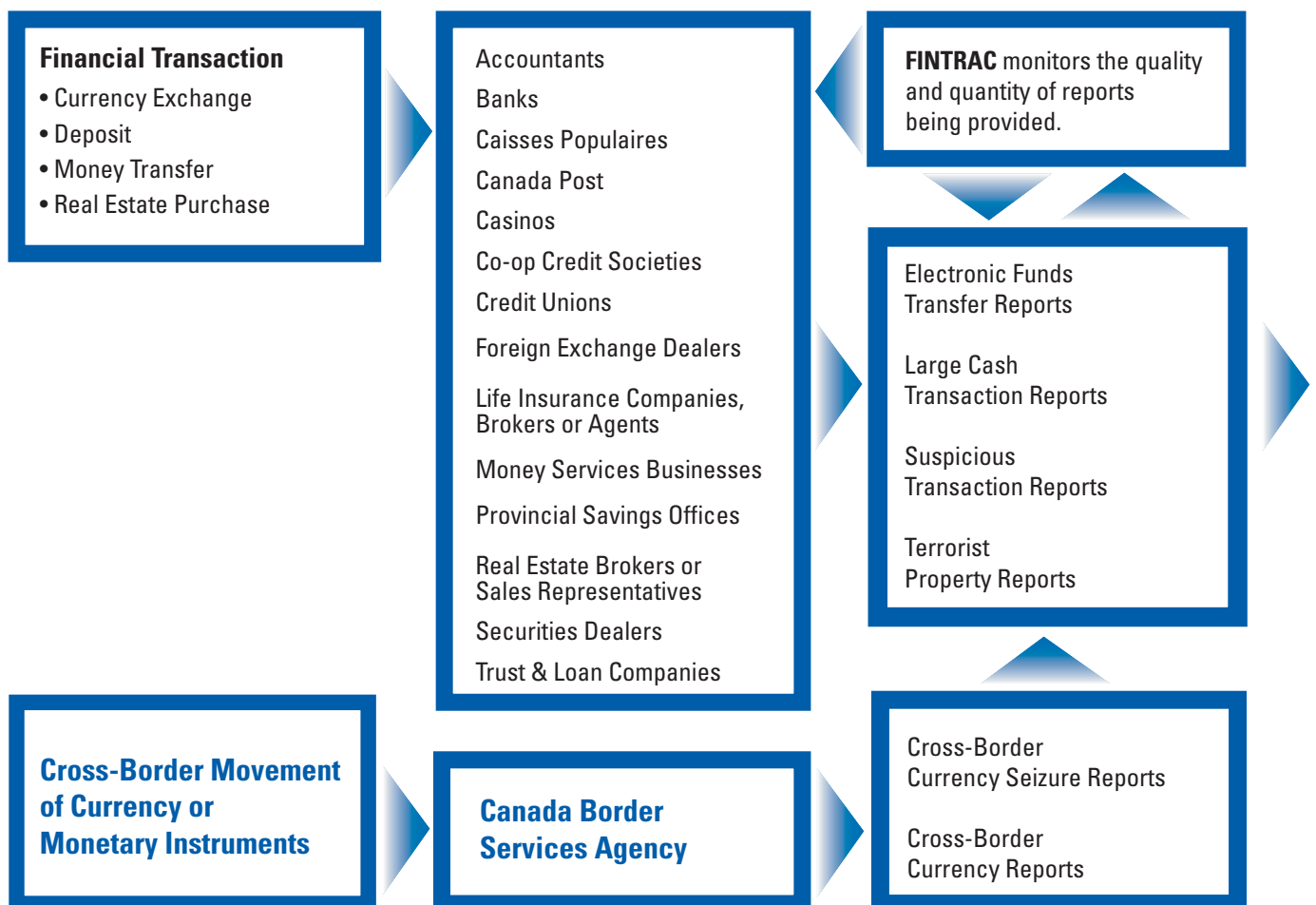
Threat and Risk Assessment (TRA)

An assessment that each federal department and agency is required to carry out in order to identify operations and data whose protection is essential and to determine an appropriate level and scope of controls required.

APPENDIX III FINTRAC's Business Process

RECEIVING INFORMATION

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



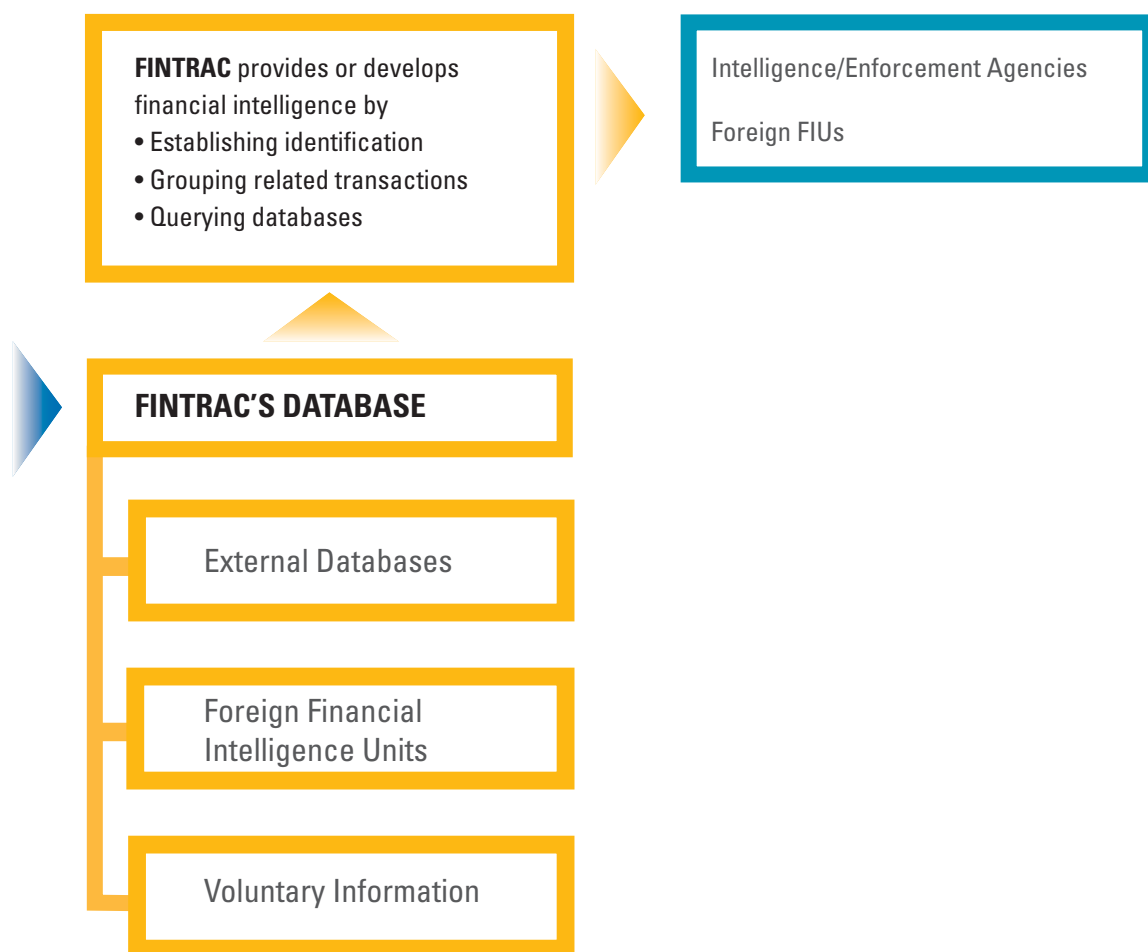


CONDUCTING ANALYSIS

Reports are analysed along with other information, to develop financial intelligence in order to detect suspected money laundering, terrorist activity financing, or other threats to the security of Canada.

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.





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