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Government
of Canada

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du Canada

FINTRAC ANNUAL REPORT

>> MARCH 31, 2002



Financial Transactions and
Reports Analysis Centre of Canada

Canada

BUILDING A SOLID FOUNDATION



Financial Transactions and
Reports Analysis
Centre of Canada
Ottawa, Canada K1P 1H7

Office of the Director

Centre d'analyse des
opérations et déclarations
financières du Canada
Ottawa, Canada K1P 1H7

Cabinet du directeur

September 30, 2002

The Honourable John Manley, P.C., M.P.
Deputy Prime Minister and Minister of Finance
L'Esplanade Laurier
140 O'Connor Street, 21st Floor
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 first Annual Report for the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC). The Report covers the first 21 months of FINTRAC's existence, from July 5, 2000 through March 31, 2002.

We have taken the opportunity of our first Annual Report to introduce FINTRAC to Canadians and to highlight the activities that we have undertaken and the results we have achieved in our efforts to detect, deter and prevent money laundering and terrorist financing.

I look forward to our continued work on issues that will advance Canadian efforts to combat money laundering and terrorist financing.

Yours sincerely,

Horst Intscher
Director

Canada 

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>> MESSAGE FROM THE DIRECTOR

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I am pleased to present the First Annual Report of the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC). This report charts FINTRAC's course from the point when it was legislated into existence in July 2000 until the end of March 2002. Throughout the 21 month reporting period, we have been engaged in a unique start-up venture, one which has seen the building of a brand new government institution.

We began with no employees, no offices, no infrastructure or operating systems and created a fully functioning agency that delivers solid financial intelligence. We have established a comprehensive framework of operational policies and guidelines, recruited and trained first-rate staff, acquired and developed leading edge technology and analytical tools. We have put in place exacting security measures to ensure the protection of the information entrusted to us. Moreover, we have assumed additional responsibility for combating terrorist financing that was given to us with the passage of the *Anti-terrorism Act* in December 2001.

Much of our success is due to the support given to us by our numerous external partners and stakeholders. I would like to mention first of all the tremendous goodwill that has been shown by the financial services sector and all those entities which are subject to the

Proceeds of Crime (Money Laundering) and Terrorist Financing Act. I am mindful of the impact that the legislation and its regulations have on Canada's financial services industries. The cooperation that they have shown in making the necessary adjustments to their systems and practices has been tremendous. The Centre continues to work closely with them to ensure that they are able to meet their obligations in the most efficient and effective way possible.

Our work with the law enforcement and security communities, as well as with the federal departments and agencies engaged in anti-money laundering and anti-terrorism initiatives, has likewise been instrumental in bringing us to where we are today. I cannot overstate the value of the collaborative ties that we have developed with the Department of Finance, as well as with the Royal Canadian Mounted Police, the Canadian Security Intelligence Service, the Canada Customs and Revenue Agency, Citizenship and Immigration Canada, the Department of Foreign Affairs and International Trade, Justice Canada, the Solicitor General of Canada, Treasury Board Secretariat, Privy Council Office and the Communications Security Establishment. We all recognize that we are working toward a common goal and are committed to achieving synergies through ongoing communication and dialogue.

Connecting the money to the crime

I would also like to acknowledge the valuable assistance and advice that has been provided by our international counterparts. In particular, we have benefited greatly from the experience of the United Nations Global Programme Against Money Laundering as well as from the financial intelligence units (FIUs) in the United States, Australia, the United Kingdom, France, Belgium and the Netherlands. We believe that we will have much to offer in return for this assistance, both through bilateral cooperation with these and other FIUs and through our active participation in multilateral fora, such as the Egmont Group of Financial Intelligence Units.

Finally, I wish to underscore the incredible contributions made by employees. We have been extremely fortunate in attracting bright and capable people who demonstrate an unparalleled dedication and professionalism.

In the coming year FINTRAC will continue to build on its achievements. We will enhance our analytical capacity in order to keep pace with the growing volume of reports that we expect to receive as the next phase of regulations comes into force. We will also continue our work with both reporting entities and regulators to ensure compliance with the *Act* and regulations. As well, much of our energy will be directed

to operationalizing the anti-terrorist financing component of our work.

The fight against money laundering and terrorist financing is vitally important to all of us. Money laundering compromises the integrity of legitimate financial systems and enables criminals to profit from their crimes. The financing of terrorism allows terrorist organizations to perpetrate illegal acts that inflict terrible harm on innocent people.

I regard FINTRAC's mission as essential to the safety and well-being of Canadians. I am proud of the strides we have made and I am confident that the Centre will be a strong performer in the global fight against organized crime and terrorism.



Horst Intscher
Director



WHO WE ARE >

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Financial intelligence units play an important role in the fight against money laundering and the financing of terrorist activity. They facilitate the sharing of appropriate information across borders, and add value to criminal investigations by providing intelligence on the “money trail” — information that is not readily available elsewhere.

The Financial Transactions and Reports Analysis Centre of Canada, or FINTRAC, is Canada’s financial intelligence unit, a specialized agency created to collect, analyze and disclose financial information and intelligence on suspected money laundering and terrorist financing activities. Created in July 2000, the Centre is an integral part of our country’s engagement in the global fight against money laundering and the financing of terrorist activities.

FINTRAC is an independent agency, operating at arm’s length from the police and other departments and agencies of government to whom it can provide financial intelligence (i.e., Canadian Security Intelligence Service, the Canada Customs and Revenue Agency, and Citizenship and Immigration Canada).

The Centre reports to Parliament through the Minister of Finance, who is responsible for the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (PCMLTFA) and its accompanying regulations. The Minister may direct FINTRAC on matters that materially affect public policy or the Centre’s strategic direction. In addition, the Minister may enter into agreements with foreign governments for the exchange of information between FINTRAC

and foreign financial intelligence units (FIUs) and must approve information exchange agreements that FINTRAC enters into with foreign FIUs.

FINTRAC is headed by a Director, appointed by the Governor-in-Council, who has all of the powers of a deputy head of a department, as well as those of a separate employer. The Director is required to report to the Minister of Finance, from time to time, on the exercise of these powers and the performance of duties authorized under the *Act*. However, the Director is prohibited by law from disclosing to the Minister any information that would directly or indirectly identify any individual who made a report to the Centre or who is the subject of a report to the Centre.

Our Workforce

As of March 31, 2002, FINTRAC’s workforce numbered 143 employees. Approximately 90% of them are located at headquarters in Ottawa, where they perform a broad range of operational, management and administrative functions. The balance performs liaison and compliance functions at regional offices in Toronto, Montreal and Vancouver.

Our Mandate

The Centre was created to detect and deter money laundering by providing critical information to support the investigation and prosecution of money laundering offences. In December 2001, this mandate was expanded to include the detection and deterrence of terrorist financing activity .

More specifically, FINTRAC's mandate is to:

- receive and collect reports on suspicious and prescribed financial transactions and other information relevant to money laundering and terrorist financing activities;
- receive reports on the cross-border movement of large amounts of currency or monetary instruments;
- analyze and assess the information it receives;
- provide law enforcement financial intelligence that would be relevant to the investigation and prosecution of money laundering offences and terrorist activity financing offences as well as to provide CSIS with financial intelligence that would be relevant to threats to the security of Canada;
- ensure that personal information under its control is protected from unauthorized disclosure;
- ensure compliance by financial intermediaries and other reporting entities with their obligations under the *Act* and regulations; and
- enhance public awareness and understanding of matters related to money laundering and terrorist financing.

Our Mission, Vision and Values

FINTRAC's **Mission** is to provide law enforcement and intelligence agencies with financial intelligence on money laundering, terrorist financing activity and threats to the security of Canada, while ensuring the protection of the information it holds.

Our **Vision** is to be a leader in providing timely and high quality financial intelligence in the global fight against money laundering and terrorist financing, and thereby contribute to the public safety of Canadians.

We **Value** • *People* • *Teamwork* • *Integrity* • *Excellence*

Our Executive Team

- Director — **Horst Intscher**
- Deputy Director, Money Laundering Analysis — **Dominique Short**
- Deputy Director, Terrorist Financing Analysis — **Jacques Desjardins**
- Deputy Director, Policy, Planning and Public Affairs — **Sandra Wing**
- Deputy Director, Liaison and Compliance — **Vacant**
- Deputy Director, Information Technology — **Richard Sansom**
- Deputy Director, Corporate Management — **Lynn MacFarlane**
- General Counsel — **Paul Dubrule**



HOW WE CAME TO BE

Money laundering and the financing of terrorism are problems for which the solution has to involve not only national action but also international co-operation. FINTRAC's origins are rooted in the global effort, in which Canada has long been a key player, to combat organized crime and money laundering. In the 1980s it came to be recognized that the solution to the money laundering problem would not be found by individual countries working in isolation; it would require extensive international cooperation.

In 1988, Canada joined with other nations in Vienna to sign the *United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (the Vienna Convention)*, which recognized the need for international cooperation to detect proceeds of crime and money laundering.

In 1989, at their Economic Summit, the G7 leaders established the Financial Action Task Force (FATF)¹ on Money Laundering with Canada as one of the founding members, to spearhead the coordination of international efforts to fight money laundering. That same year, Canada enacted legislation that made the possession and laundering of proceeds of crime offences under the *Criminal Code*. Soon after, the FATF issued the Forty Recommendations on measures to be implemented by member countries to combat money laundering.² In 1991, the original *Proceeds of Crime (Money Laundering) Act* was enacted, requiring many financial institutions to identify customers and to maintain records.

In the late 1980s and early 1990s, some FATF members had begun to create specialized agencies, known as financial intelligence units (FIUs), to collect, analyze and disclose financial information and intelligence on proceeds of crime and money laundering activities. In 1995, a number of these FIUs came together to form the Egmont Group,³ whose purpose is to provide an international forum for cooperation and information exchange to support member countries' anti-money laundering regimes. The Group's goals were recently expanded to include the combating of terrorist financing activity. In 1996, the FATF called on all member countries, including Canada, to require financial intermediaries to report suspicious transactions to a central financial intelligence unit. That same year, Canada committed to introducing a new regime to deal with money laundering, setting the stage for the creation of FINTRAC.

Following an extensive round of public consultations, the Government introduced and passed a new *Proceeds of Crime (Money Laundering) Act* that ultimately led to the creation of FINTRAC on July 5, 2000. Over the following year and a half, the Centre undertook a vigorous campaign to establish critical policies and procedures and set up key organizational and personnel requirements in advance of becoming operational in the fall of 2001. Following the terrorist attacks of September 11, 2001, FINTRAC's enabling legislation was amended to expand the Centre's mandate to include the detecting and deterring of the financing of terrorist activities.

¹ For more information see www.oecd.org/fatf

² See Appendix 1 for the *40 Recommendations of the FATF* as revised in 1996. See Appendix 2 for the 8 Special Recommendations on Terrorist Financing issued by FATF on October 31, 2001.

³ For more information see www.oecd.org/fatf/ctry-orgpages/org-egmont_en.htm

Key Milestones for FINTRAC

1996

- The FATF revises its original 40 Recommendations, calling on all member countries to require the mandatory reporting of suspicious transactions and to establish centralized financial intelligence units.

1997

- The FATF's evaluation of member countries' anti-money laundering initiatives highlights Canada's lack of mandatory reporting requirements and absence of a centralized financial intelligence unit.

1997–1998

- The Canadian government consults the public on proposed legislation and regulations that, in addition to other measures, would require the mandatory reporting of suspicious transactions to a new central financial intelligence unit.

1998

- At the Birmingham G8 Summit, the Prime Minister and other G8 leaders commit to establishing financial intelligence units (FIUs).
- Development begins on a National Initiative to Combat Money Laundering, bringing together several federal departments and agencies including the Solicitor General of Canada, the Royal Canadian Mounted Police, Justice Canada, the Canada Customs and Revenue Agency, Citizenship and Immigration Canada and the Department of Finance.

1999

- The Government introduces new anti-money laundering legislation (Bill C-81), which would introduce new reporting requirements and create the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC). The Bill dies on the order paper, but is later re-introduced as Bill C-22.

2000

- Bill C-22, the *Proceeds of Crime (Money Laundering) Act*, receives Royal Assent in June and FINTRAC is officially created on July 5.

July 2000 – September 2001

- FINTRAC defines its organizational structure, acquires physical premises and equipment, recruits and trains staff, conducts consultations with key stakeholders, creates an information technology infrastructure, establishes operational policies and develops a regional presence in Toronto and Montreal.

October 2001

- FINTRAC begins receiving voluntary information about suspicions of money laundering.

November 2001

- The first phase of regulations comes into force. FINTRAC begins receiving Suspicious Transaction Reports.

December 2001

- Parliament enacts the *Anti-terrorism Act*, which adds combating terrorist financing activity to FINTRAC's mandate. The *Act* is renamed the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*.

February 2002

- FINTRAC amends its organizational structure and operations to include terrorist financing analysis.

March 2002

- A third regional office is established in Vancouver.
- FINTRAC completes the full cycle of receiving and analysing financial and other information, and disclosing of financial intelligence.

What is money laundering?

Money laundering is the process used to disguise the source of money or assets derived from criminal activity. Profit-motivated crimes span a variety of illegal activities from drug trafficking and smuggling to fraud, extortion and corruption. The illicit profit and proceeds from these crimes must be laundered to be enjoyed. The scope of criminal proceeds is significant — in 1996 the International Monetary Fund (IMF) estimated that some \$500 billion (U.S.) is laundered worldwide each year.

Money laundering is a global phenomenon, and the techniques used are numerous and can be very sophisticated. Technological advances in e-commerce, the global diversification of financial markets and new financial product developments provide further opportunities to launder illegal profit and obscure the money trail leading back to the underlying crime.

While the techniques for laundering funds vary considerably and are often highly intricate, there are generally three stages in the process: **placement**, which involves placing the proceeds of crime in the financial system; **layering**, which involves converting the proceeds of crime into another form and creating complex layers of financial transactions to disguise the audit trail and the source and ownership of funds (e.g., the buying and selling of stocks, commodities or property); and **integration**, which involves placing the laundered proceeds back in the economy under a veil of legitimacy.

Money laundering facilitates corruption and destabilizes the economies of susceptible countries. It also compromises the integrity of legitimate financial systems and institutions, and gives organized crime the funds it needs to conduct further criminal activities. The fight against money laundering is therefore vitally important. To be effective it must focus on those responsible for the crimes that produce illegal profit.

What is terrorist financing?

Terrorist financing operates somewhat differently from money laundering but no less insidiously. While terrorist groups do generate funds from criminal activities such as drug trafficking and arms smuggling, they may also obtain revenue through legal means. Supporters of terrorist causes may, for example, raise funds from their local communities by hosting events or membership drives. In addition, some charity or relief organizations may unwittingly become the conduit through which donors contribute funds that may eventually be used to commit a terrorist act. The funds are then routed to the recipient terrorist organizations through both informal networks and the formal financial system.

Terrorist activities constitute threats to our country's safety and security. An effective response involves, among other things, efforts to detect and curtail the flow of money needed to finance such activities.



OUR ACTIVITIES >

Financial intelligence is the essence of FINTRAC's business. Our activities, as a result, are best described in relation to the information we receive and what we do with it.

FINTRAC *receives* financial and other information which it is under an obligation to *protect* from unauthorized disclosure. It *analyzes* this information with a view to detecting money laundering, terrorist financing activities and threats to the security of Canada. On the basis of its analysis, the Centre generates financial intelligence that it will, when appropriate, *disclose* to law enforcement and intelligence agencies in order to assist in the investigation and/or prosecution of money laundering and terrorist financing offences, as well as threats to the security of Canada. Further, the Centre *ensures compliance* with the record keeping, client identification and reporting requirements of the *Act* and regulations, and is charged with *enhancing public awareness* and understanding of matters related to money laundering and terrorist financing.

Receipt of Financial and Other Information

The *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* authorizes FINTRAC to receive and collect a wide range of information from various institutions and individuals known as "reporting entities." FINTRAC will also receive reports on the cross-border movement of currency and monetary instruments from the Canada Customs and Revenue Agency (CCRA). Regulations in force during the period covered by this report required mandatory reporting of suspicious

transactions related to money laundering by all reporting entities.⁴

As well, FINTRAC has legislative authority to: receive information provided voluntarily by law enforcement, intelligence agencies, foreign financial intelligence units and the general public; make use of publicly available information, including commercial databases; and, may enter into agreements to access databases maintained by federal or provincial governments for purposes related to law enforcement.

Analysis of Information

The linkage of financial transactions and other information with suspected criminal activity is the critical focus of FINTRAC's analysis. The Centre is mandated to conduct an independent analysis of its information holdings to detect money laundering, terrorist financing activities and threats to the security of Canada. The information analyzed includes the financial information the Centre receives from reporting entities and CCRA, information provided by the police and other domestic and international government departments and agencies, as well as information available on public or commercially-available databases. In its analysis, FINTRAC combines the skills of trained analysts with the use of specially-designed technological tools.

The electronic receipt of financial transaction information from reporting entities provides FINTRAC with some key advantages in its analytical operations. First, information is readily available for analysts without any delay for manual inputting. Second, business rules and sophisticated analytical

⁴ As of the date of printing of this report, regulations dealing with the following reporting requirements, had come into force:

- Suspicious transactions related to terrorist financing (June 12, 2002)
- Terrorist property (June 12, 2002)
- International electronic funds transfers (via SWIFT) of \$10,000 or more (June 12, 2002)

systems sort through the large quantities of data to identify links and patterns that assist FINTRAC's analysts in their work.

This technology helps FINTRAC's analysts to detect potential cases of money laundering or terrorist financing. Analysts subject potentially suspicious patterns of transactions to further analysis and tests prior to making a recommendation as to whether information should be disclosed in accordance with the legislation. Our analysts apply internationally recog-

nized indicators of money laundering and terrorist activity financing to their analysis.

Disclosure of Financial Intelligence

FINTRAC must disclose designated information to the appropriate police force when it has reasonable grounds to suspect that the information would be relevant to the investigation or prosecution of a money laundering offence or a terrorist activity financing offence. Once this initial test has been met, designated information

Who must report

- financial entities (such as banks, credit unions, caisses populaires, trust and loan companies and agents of the Crown that accept deposit liabilities);
- life insurance companies, brokers and agents;
- securities dealers;
- persons engaged in the business of foreign exchange dealing;
- money services businesses (MSBs);
- legal counsel⁵ (when carrying out certain activities on behalf of their clients);
- accountants (when carrying out certain activities on behalf of their clients);
- real estate brokers or sales representatives (when carrying out certain activities on behalf of their clients);
- casinos; and
- individuals when transporting large amounts of currency or monetary instruments across borders.

What is reported

- Suspicious transactions related to money laundering (as of November 8, 2001);
- Suspicious transactions related to terrorist financing (anticipated in 2002);
- Suspected terrorist property reports (anticipated in 2002);
- International electronic funds transfers of \$10,000 or more — SWIFT⁶ and non-SWIFT (anticipated in 2002);
- Large cash transactions of \$10,000 or more (anticipated in 2002); and
- Cross-border currency movements of \$10,000 or more (anticipated in 2002).

How it is reported — electronically

We are unique among the world's FIUs in that our regulations require reporting entities to submit their reports electronically wherever possible, using FINTRAC's secure Web site and encryption software developed for that purpose. As a result, over 90% of transaction reports come to us electronically, enabling most information to enter our database automatically, without delays for manual inputting.

Electronic reporting means that the information provided to the Centre can be accessed, collated and analyzed quickly. Ultimately it means more timely analysis and faster disclosure of information about a possible money laundering or terrorist financing operation to law enforcement and/or security authorities, facilitating the likelihood of a successful investigation and/or prosecution.

What is disclosed

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

⁵ Lawyers across Canada have challenged the provisions of the PCMLTFA as they apply to legal counsel. Interim injunctions have been made suspending the application of those provisions to legal counsel, pending a court decision on the merits of the case. The original petition filed in B.C. will serve as a test case for all jurisdictions.

⁶ SWIFT is the Society for Worldwide Interbank Financial Telecommunication. It is a co-operative owned by the international banking community that operates a global data processing system for the transmission of financial messages.

must also be provided to the Canada Customs and Revenue Agency, if FINTRAC determines that the information is relevant to an offence of evading or attempting to evade federal taxes or duties, and to Citizenship and Immigration Canada, when such information is relevant to certain *Immigration Act* offences.

The Centre is required to disclose to the Canadian Security Intelligence Service (CSIS) when it has reasonable grounds to suspect the information would be relevant to a threat to the security of Canada.

FINTRAC may also disclose designated information to foreign financial intelligence units with which Canada has agreements authorizing it to do so.

In its disclosures, FINTRAC provides information that identifies the person(s) involved in the transaction(s), where and when the transaction(s) took place, and certain other details about the transaction(s).

The disclosure of this information provides valuable intelligence about money laundering, terrorist financing activity and threats to the security of Canada. To obtain information additional to the designated information, including the analysis conducted by FINTRAC, the police must obtain a court order directing further disclosure by the Centre. CSIS also has the ability to seek a court order to obtain additional information from FINTRAC when it is relevant to a threat to the security of Canada.

Protection of Information

FINTRAC has the mandate to receive personal financial information on individuals and to ensure that such information is protected from unauthorized disclosure. In addition to the provisions of the *Act* that set out to whom and under what circumstances FINTRAC may disclose designated information, the legislation also provides penalties for unauthorized use and disclosure.

Ensuring Compliance

FINTRAC is responsible for ensuring that reporting entities comply with their reporting, record keeping and client identification obligations as set out in the *Act* and regulations.

FINTRAC favours a cooperative approach to compliance and encourages entities to comply with their obligations voluntarily. This means working with them in a constructive manner to ensure that they understand their obligations under the law and to provide

assistance to support their compliance. In cases where this cooperative approach fails to result in improved compliance or where there is willful non-compliance, FINTRAC may refer such cases to law enforcement.

Cooperation with federal and provincial regulators is instrumental to the Centre's compliance strategy. The sharing of information with regulators is important because it will eliminate information gaps and minimize regulatory overlap.

Enhancing Public Awareness

FINTRAC's mandate includes enhancing public awareness and understanding of matters relating to money laundering and terrorist financing. The Centre's early activities in this regard included the development and implementation of a number of outreach strategies and promotional material, as well as the creation and maintenance of a public Web site (www.fintrac.gc.ca) and a toll-free number at 1-866-346-8722 where Canadians can get information and answers to their questions.

Other Activities

Other important activities are undertaken by the various sections of the Centre to facilitate day-to-day operations and the delivery of its mandate. These include *Policy, Planning and Public Affairs*, which is responsible for coordinating international activities, strategic planning, internal and external communications, and the development of operating policies and procedures. *Liaison* coordinates outreach activities, develops and maintains relationships with important stakeholder groups, receives voluntary information and delivers disclosures. *Information Technology* develops and operates information technology systems to support and advance the Centre's objectives. *Corporate Management* provides a number of internal support functions to the Centre in the areas of human resources management, finance, administration, security and corporate secretariat. *Legal Services* provide a host of legal services to FINTRAC, ranging from litigation support to advice on operational matters.



OUR RESULTS: BUILDING A SOLID FOUNDATION >

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In July 2000, the passage of the *Proceeds of Crime (Money Laundering) Act* created FINTRAC, but at that point the Centre existed in name only. It had a mandate, but no staff, equipment, systems or offices. Starting in July 2000, FINTRAC had the tremendous challenge and opportunity of building an organization from the ground up. The activities to be undertaken by the Centre were not being provided by any other government department or agency. Our story is that of a unique start-up venture within the federal public sector.

During the foundation-building period we created from scratch the organization and infrastructure required to carry out our mandate. We acquired offices and equipment. State-of-the-art physical security arrangements required by the highly sensitive nature of our operations were put in place. An overall management structure for the organization, including an Executive Committee and operational working groups were established and supported by appropriate approval and decision-making processes. The full array of corporate functions needed by a government agency were created: policy and planning, public affairs, finance and administration, human resources, security, information technology and legal services. By March 31, 2002, we had implemented the full cycle of receiving and analysing financial and other information, and disclosing financial intelligence — in other words, our core functions — which attests to our success in meeting this challenge.

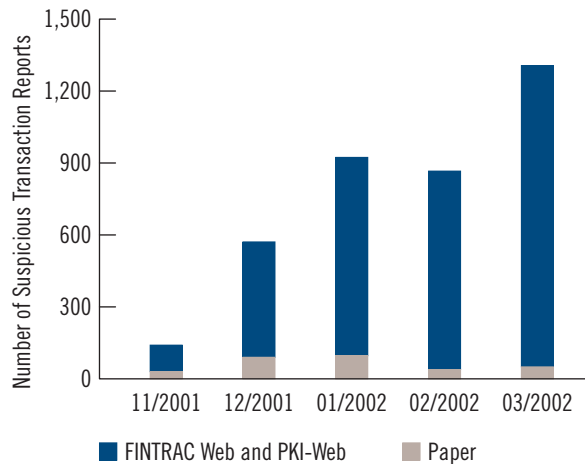
It is worth setting out in detail the work that was done in each of these core areas over the past year or more.

Receipt of Financial and Other Information

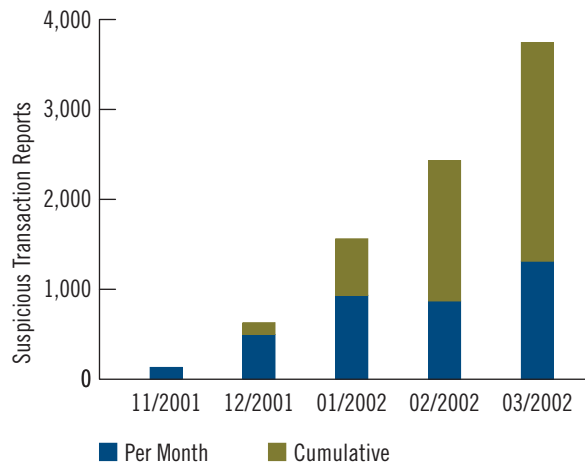
To facilitate compliance with the new anti-money laundering legislation, given its scope and complexity, the reporting requirements were phased in, starting with those pertaining to suspicious transaction reports (STRs) and the receipt of voluntary information. FINTRAC worked on the legislation and regulations in close co-operation with the Department of Finance, which has lead responsibility, and actively participated in the extensive consultation process the Department carried out.

It was clear that implementing the first phase of the regulations would be an enormous challenge. Having identified over 100,000 financial and other entities that could be subject to the new reporting requirements, our liaison staff, together with others in the Centre, consulted extensively with banks, credit unions, money service businesses, accountants and others on the development of guidelines to assist them in meeting their regulatory obligations. This involved a year-long series of cross-country consultations with stakeholders and intensive work to draft guidelines that were relevant to all reporting entities, from large banking institutions to sole practitioner accountants. Our first set of guidelines was published in September 2001 and made available on our newly-created Web site (www.fintrac.gc.ca).

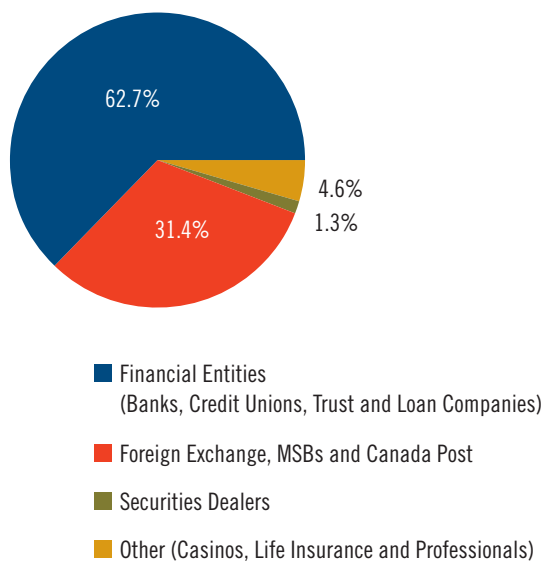
Electronic vs. Paper Reporting



Number of Suspicious Transaction Reports received



Suspicious Transaction Reports submitted by Sector



There was also the challenge of building the technical capability to enable reporting entities to submit their reports electronically to FINTRAC. We worked closely with the banking community and a cross-section of representatives from other reporting entities to determine electronic methods that they could most easily and efficiently use to submit their reports. We studied the reporting processes employed by other countries' financial intelligence units to see what elements could be borrowed from them. The methods we eventually adopted were consistent with the federal government's *Government On-Line* initiative and met the needs of both the large financial institutions as well as entities that report infrequently.

For entities with anticipated high volume and frequent reporting requirements, we implemented a system that uses the Internet with Public Key Infrastructure (PKI), similar to the systems used by several federal departments to deliver key services to the public. For entities that report low volumes and infrequently, we established a secure Web site with encryption, similar to the systems employed by businesses for credit card transactions, and by some banks for on-line banking.

In addition to putting in place an infrastructure for the receipt of information from reporting entities, we were faced with the challenge of receiving voluntary information from other sources, including law enforcement. In order to facilitate the receipt of this information, we consulted extensively with law enforcement and other government agencies to establish protocols and procedures to streamline the process.

FINTRAC's processes for the receipt of voluntary information were in place by October 28, 2001, and systems to enable the electronic receipt of Suspicious Transaction Reports were tested and in place on November 8, 2001.

Our experience with electronic reporting is now being recognized internationally as a best practice model and a number of foreign FIUs have asked us to share our knowledge and expertise.

Analysis of Information

Between November 8, 2001 and March 31, 2002, FINTRAC received a total of 3,747 suspicious transaction reports, involving over 11,000 financial transactions. In order to be in a position to conduct this core function of our mandate, the Centre invested heavily in the design and execution of its analytical process.

We looked at the FIUs of other countries to learn about their analytic tools and methods. We researched current money laundering techniques and selected indicators to be used to identify transactions associated with potential money laundering and terrorist financing activities. As well, we identified government and commercial databases of interest to FINTRAC and concluded an agreement with the RCMP to gain access to a national law enforcement database.

Skilled analysts with a wide variety of backgrounds from both the public and private sector were recruited and provided with specialized training to aid them in their duties. We benefited enormously from the expertise of the law enforcement and security communities in terms of learning and training as we prepared to implement our mandate.

Information technology is integral to FINTRAC's ability to produce high quality financial intelligence. A great deal of energy and resources were devoted to acquiring and putting in place the systems and software needed to structure the Centre's database, manage transaction reports and to access commercial and public databases. This included development of an initial version of the "Analyst's Workbench", a toolkit that provides the ability to match or link data for the analysts to review. A comprehensive Case Management System was developed to retain all documents, reports, images and notes relating to a case. In addition, commercial software packages were acquired to search and query databases, and to display case relationships in link diagram form.

Disclosure of Financial Intelligence

The recipients of our financial intelligence are the law enforcement community and CSIS. We developed policies and procedures on disclosures, which covered the form

and content of disclosures as well as the approval process. A Disclosure Committee was established and protocols for dealing with court orders to produce additional information were developed. During our first 5 months of operations designated information involving 161 suspicious transaction reports relating to a large number of financial transactions was disclosed to law enforcement.

Protection of Information

We met our statutory obligation to protect the personal information under our control from unauthorized disclosure by developing a comprehensive set of practices, policies and procedures related to information management, the physical security of our facilities and equipment, and the security of our employees.

FINTRAC put in place a robust integrated security program that incorporates the latest security concepts to protect personnel, assets and the personal information entrusted to it. The Centre's security policies have been developed recognizing that the analysis of financial and other information and the disclosure of financial intelligence must be balanced with the requirement to respect individual rights and freedoms and to ensure management accountability.

All FINTRAC personnel, consultants and contractors are required to hold the appropriate level of security clearance. Upon hiring, they receive a security briefing and are advised of FINTRAC security policies and the Centre's obligations to protect personal information.

A state-of-the-art security system has been introduced to control and monitor access to FINTRAC premises and the restricted areas within. Sensitive information and functions have restricted access based on "the need to know" principle.

In the same vein, electronic networks have restricted access and are subject to audit. This includes e-mail and Internet activity. The use of electronic devices by visitors to FINTRAC is strictly controlled.

Policies and procedures have also been developed to ensure the integrity and expeditious delivery of financial intelligence to those agencies authorized to receive it. A process has also been implemented to ensure that all voluntary information provided to the Centre meets the necessary threshold for retention.

The practices, policies and procedures discussed above have been implemented by FINTRAC to ensure that, in exercising its responsibilities, the Centre fully respects the *Canadian Charter of Rights and Freedoms* and conforms to the privacy requirements of our *Act*, the *Privacy Act* and all other relevant legislation.

Immediately following the coming into force of the provisions of the *Act* that created FINTRAC, the position of Access to Information and Privacy Coordinator was created. The Coordinator is responsible for ensuring that information held by FINTRAC is stored in accordance with statutory requirements and is accessible as required by the *Privacy Act* and the *Access to Information Act*.

Ensuring Compliance

An equally demanding challenge was that of implementing the compliance portion of our mandate. Based on extensive consultations with representative groups across Canada, spanning several months, we developed and published a series of compliance guidelines in response to needs identified by reporting entities. It is anticipated that FINTRAC's compliance powers will come into force in 2002.⁷

On September 12, 2001, FINTRAC officially released its first two guidelines:

- Guideline 1: Backgrounder
- Guideline 2: Suspicious Transaction Reporting

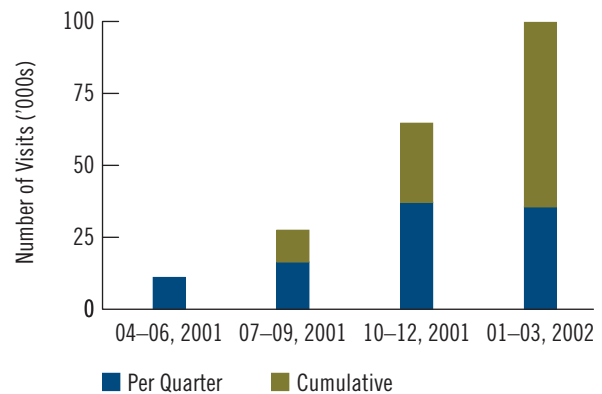
Building Relationships and Enhancing Public Awareness

The first twenty-one months were marked by a strong emphasis on reaching out to key domestic and international stakeholders, as well as to the public, in order to promote awareness of FINTRAC and support for its objectives.

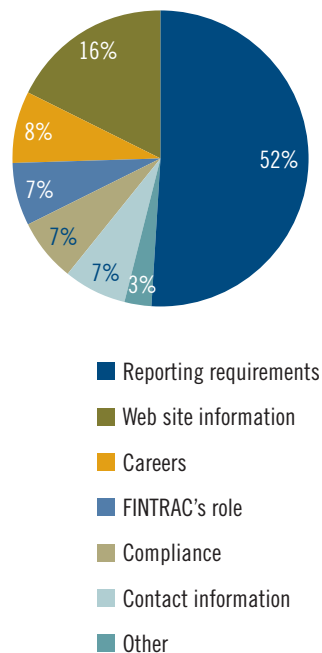
We established a corporate identity, including the creation of our logo and acquisition of our name, FINTRAC (Financial Transactions and Reports Analysis Centre of Canada) in English and CANAFE (Centre d'analyse des opérations et déclarations financières du Canada) in French.

We developed both internal and external Web sites, promotional products and a trade show exhibit all aimed at providing vital information about FINTRAC and the reporting obligations under the *Act*. A Call Centre was established to respond to queries from reporting entities, the public and the media, offering a toll-free bilingual service.

Web site visits — April 2001 to March 2002



Distribution of types of calls received by the Call Centre



⁷ These powers came into effect on June 12, 2002.

The need to consult with reporting entities on the development of guidelines provided a springboard for getting our message out to financial and business communities. We also began dialogue with federal and provincial regulators on ways to cooperate on ensuring compliance with our reporting requirements. To support these outreach activities, we established regional offices in Toronto, Montreal and Vancouver.

Relationships were established with the law enforcement and intelligence communities as well as with the federal departments and agencies involved in Canada's anti-money laundering and anti-terrorism initiatives: the RCMP, provincial and municipal police forces, the Canadian Security Intelligence Service, the Communications Security Establishment, the Canada Customs and Revenue Agency, Citizenship and Immigration Canada, Solicitor General of Canada, Justice Canada and the Department of Foreign Affairs and International Trade, among others. We conducted information sessions and joint training.

We also began to establish our presence at the international level and pave the way for playing a strong leadership role in international initiatives to combat money laundering and terrorist financing. We were a part of Canadian delegations to a number of multilateral fora, including the Financial Action Task Force (FATF), the Caribbean Financial Action Task Force (CFATF) and the Canada–U.S. Cross-Border Crime Forum.

We applied for membership in the Egmont Group⁸ of Financial Intelligence Units in December 2001. As of March 31, there were 58 FIUs participating in the Egmont Group. Membership in the Egmont Group is a necessary precursor to initiating discussions with foreign FIUs for the exchange of information.

Creating the FINTRAC Team

FINTRAC is a separate employer. This means that the Centre fulfills the role of employer and is responsible for an agenda of rights and responsibilities that Treasury Board normally undertakes for other departments and agencies. Whereas other separate employers created in recent years brought with them the people,

organization and administrative capacities they had before they were split off from their original departments, such as was not the case for FINTRAC.

A first priority was to build a small, but highly effective workforce that was dynamic, diverse, dedicated and knowledgeable. The Centre identified what needed to be done and the competencies and people needed to get the job done.

From a recruitment perspective, FINTRAC had no employer recognition with prospective candidates. We designed and launched a successful national recruitment strategy and undertook an exercise to brand FINTRAC as a distinctive and exemplary employer with a mandate that touches all Canadians — the safety of our communities. We built a workforce and assembled a team of high-calibre professionals. As of March 31, 2002, 70% of our positions were staffed with 143 employees in place.

A compensation strategy was developed and implemented that allowed us to attract and support the talent critical to the success of the Centre. An underlying element of our human resources strategy is a comprehensive approach to compensation and employment practices. This total approach aims to market and describe our strategies and practices under the following themes:

Health: benefits including — health care; dental care; disability, life and accident insurance.

Compensation: salary, performance pay, merit awards and pension benefits.

Role: job content, accountabilities, competencies and performance.

Growth: career development and learning opportunities.

Work Environment: workplace facilities, occupational safety, health and ergonomics.

Family: employee and family assistance programs, family-friendly approaches, management of work/life balance.

Community: employee involvement in community activities, work/community partnerships, charitable campaigns.

Our commitment to a diverse workforce is evident from our demographics.

⁸ The Egmont Group, founded in 1995, is an international group of financial intelligence units (FIUs), which work together in an informal organization to provide a forum for FIUs to improve support to their respective national anti-money laundering and anti-terrorist financing programs.

To be able to keep pace with the evolution and techniques of money laundering and terrorist financing, FINTRAC must be a learning organization that values the intellectual capital of its employees. We developed and delivered a comprehensive array of orientation and training programs for our staff. This was a particular challenge for employees delivering strategic analysis. No ready-made, off-the-shelf, training program for financial intelligence analysts existed. We met the challenge by designing a new curriculum. Our basic and advanced analyst-training package comprises modules developed and delivered using in-house expertise, external resources such as the RCMP, the Canadian Police College, financial industry specialists, as well as experts from other countries. As of March 31, 2002, 80% of our analysts had undergone the basic training component which included training on money laundering techniques and typologies, the use of analytical software, and intelligence analysis.

To support the Centre's liaison and compliance functions, we relied on the knowledge and expertise of industry experts. With 13 different sectors of the financial services area being included as reporting entities, consid-

erable effort was expended to ensure that staff responsible for liaison and compliance became knowledgeable about all of them. We held meetings, conducted extensive research and consulted with them to better understand the businesses of our reporting entities.

Reflecting the high value that FINTRAC places on intellectual capital, we chose to invest solidly in the creation of a learning environment. Over the course of this reporting period, our combined learning investments equaled some 4% of our payroll.

In addition to these key initiatives, we met the employer challenge of establishing and implementing a suite of practices, approaches and policies to ensure that FINTRAC's diligence in complying with legislative requirements was fully understood and met. This included our obligations with respect to human rights and privacy, employment equity, official languages and occupational safety and health.

Staff Expertise

- | | | |
|--------------------------|--------------------------|---------------------|
| • Actuarial Science | • Financial Services | • Planning |
| • Auditing | • Forensic Accounting | • Policy |
| • Communications | • Human Resources | • Record Management |
| • Compliance | • Information Technology | • Security |
| • Comptrollership | • Inspection | • Tax Audit |
| • Criminal Investigation | • Intelligence | • Training |
| • Criminology | • Legal | |
| • Economics | • Mathematics | |

Our Demographics

- 11% of our employees self-identify as persons from visibility minority groups
- 52% are women
- 34% are francophone
- Average age is 39



PRIORITIES FOR 2002 – 2003 >

High Quality Financial Intelligence

Initiatives that directly contribute to our ability to deliver high quality financial intelligence.

Leadership in E-Government

Commitment to full electronic reporting and to utilizing modern technology to help us fulfill our mandate.

Exemplary Employer

Recruitment and retention with a focus on innovation, quality, and continuous learning in a spirit of collaboration and teamwork.

Our Priorities reflect our key challenges for the coming year and our commitment to results that will ensure that we continue to develop as an effective FIU.

High Quality Financial Intelligence

We will ensure that we have the full capacity needed to receive and analyze the additional types of financial information that will, under the next phase of regulations become subject to mandatory reporting during 2002. These regulations will address:

- large cash transactions of \$10,000 or more;
- international electronic funds transfers (EFTs) of \$10,000 or more;
- suspicious transactions relating to terrorist financing;
- terrorist property holdings; and
- cross-border movements of currency and other monetary instruments.

With the addition of mandatory reporting of international electronic funds transfers (EFTs) and large cash transactions, FINTRAC will see the number of reports it receives rise sharply during 2002–2003. It is

estimated that the number of reports will increase to almost 3 million.

We will enhance the tools available to our analysts to facilitate the handling of both the new types of reports and their high volume. In order to expand the range of useful information available to our analysts, we will seek agreements with law enforcement agencies to allow FINTRAC access to their databases. Further, at a strategic level, we will pursue research and exchanges of information with international partners to broaden our understanding of money laundering and terrorist financing processes and to help identify and assess emerging trends in these areas.

The full implementation of our terrorist financing analysis mandate will demand a large commitment of effort and resources over the coming year. We will focus on acquiring the specialized tools and indicators needed to analyze financial information to uncover potential terrorist financing activities.

As the quality of our financial intelligence is dependent on the cooperation of reporting entities in meeting their obligations, we will invest considerable



energy to promote compliance through an assisted approach that will emphasize personal contact and support. We will use a risk management-based approach to identify reporting entities most in need of improving compliance and will undertake on-site visits as required. Working with federal and provincial regulators, we will develop information sharing partnerships to assist FINTRAC in its monitoring of compliance with the *Act* and Regulations.

We will also be concentrating on building our information gathering and analytic capacities at the international level. We are actively pursuing membership and participation in the Egmont Group of Financial Intelligence Units and will further pursue opportunities to enhance the flow of information between FINTRAC and its international partners.⁹

In addition to our participation in the FATF and CFATF, we expect to increase our participation in other regional anti-money laundering and anti-terrorist financing sub-groups, such as the Asia-Pacific Group (APG).

We will follow through with bilateral discussions already underway with a number of countries to establish agreements for the sharing of information. A generic Memorandum of Understanding (MOU), reflecting standards for privacy protection and security of information in Canadian legislation, is being developed and will form the basis upon which to initiate negotiations on bilateral exchange of information agreements. A strategy to support our efforts in this regard will also be developed.

Leadership in E-government

We have already experienced many successes in our journey to being at the forefront of e-government, both in Canada and internationally. This is evidenced by the fact that more than 90% of our data is received electronically.

In 2002–2003, we will build on this capacity by establishing information technology structures capable of handling the new types and volumes of reports.

Systems will be developed and implemented to accommodate the high volumes of reports we expect to receive with the implementation of the requirement to report international electronic funds transfers. These systems will link to both the SWIFT system and others used by reporting entities. A system for the electronic reporting of large cash transactions¹⁰ will also be developed. This will involve a large number of reporting entities that will require support through a number of means such as a batch transmission facility via the FINTRAC Web site or by using specialized software to be developed by the Centre.

It is anticipated that FINTRAC will, during 2002, also need to develop and implement the capacity to receive from CCRA information contained on reports of cross-border currency movements and seizures.

For terrorist financing analysis, we will develop and implement the necessary information technology capacity and electronic tools, such as artificial intelligence and data mining programs. An enhanced secure information technology environment will be established with the capability to store highly sensitive information.

⁹ FINTRAC was subsequently granted membership in the Egmont Group in June 2002.

¹⁰ These reporting requirements will come into force on November 30, 2002.



Exemplary Employer

FINTRAC will continue to recruit new talent from across the country. Recruitment efforts will be concentrated on building the terrorist financing analysis team with recruitment campaigns that are creative and dynamic, and that highlight our distinctive and important mandate. As we continue staffing the remaining 30% of our workforce, our commitment to a diverse workforce will remain solidly focused.

With the majority of our workforce in place, our attention will also turn to retention strategies. Despite the fact that our unique mandate captures the hearts and minds of our employees, we, like many employers, will grapple with the challenge of retaining key employees. We will continue to promote and implement best practices to help us retain our talent.

A competency-based approach to human resources management will be developed. Competencies, including both professional and personal attributes, are being developed and will be woven into our recruitment, performance management and career development approaches.

Supporting our vision of being an exemplary employer, is a compensation approach that values and recognizes the abilities and contributions of our employees. We will be rolling out a strong and responsive performance management process which will

include performance agreements drawn up by managers and all employees addressing key areas of commitment and learning plans.

During the coming year, we will see the completion of our fit-up of secure and modern workplaces in Ottawa, Toronto, Montreal and Vancouver.

We intend to increase our investment in learning. This will include a strong program of core and advanced training for analysts to build our analytic capacity, language training to meet our commitment to language diversity and services in both official languages, leadership skills and a broad base of learning and development programs to help employees succeed. FINTRAC knows that leadership counts. Developing leadership strategies that get results has been identified as one of the key areas of development for our managers. Our investments, both in terms of resources and effort, will reflect this vision.

FINANCIAL STATEMENTS

Management's Responsibility for the Financial Statements

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2002, and all information contained in this report rests with Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) management.

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

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



Horst Intscher
Director



Lynn MacFarlane
Deputy Director, Corporate Management

Statement of Financial Position (unaudited)

As at March 31, 2002 with comparative figures as at April 1, 2001

	2002	2001
ASSETS		
Current assets:		
Accounts receivable (note 6)	\$ 470,578	\$ —
Capital assets (note 5)	19,505,678	4,823,252
Total Assets	\$ 19,976,256	\$ 4,823,252

LIABILITIES AND EQUITY OF CANADA

Current liabilities:

Accounts payable and accrued liabilities (note 6)	\$ 3,304,199	\$ —
Accrued compensation (note 7)	1,032,816	245,885
Total Current Liabilities	\$ 4,337,015	\$ 245,885
Equity of Canada	15,639,241	4,577,367
Total Liabilities and Equity of Canada	\$ 19,976,256	\$ 4,823,252

Commitments and Contingencies (notes 8 and 9)

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

Approved by:



Horst Intscher
Director

Statement of Operations and Equity/Deficit of Canada (unaudited)

For the year ended March 31, 2002

	2002
OPERATING EXPENSES	
Salaries and employee benefits	\$ 9,876,282
Professional and special services	5,468,044
Repairs and maintenance	1,652,411
Transportation and telecommunications	1,305,462
Amortization	1,249,227
Rentals	1,288,902
Utilities, materials and supplies	789,348
Information	230,256
Net Cost of Operations	\$ 21,859,932
Equity of Canada, beginning of year	4,577,367
Net Cost of Operations	(21,859,932)
Services provided without charge	500,000
Net Cash Provided by Government	32,421,806
Equity of Canada, end of year	\$ 15,639,241

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

Statement of Cash Flow (unaudited)

For the year ended March 31, 2002

2002

OPERATING ACTIVITIES

Net Cost of Operations \$ 21,859,932

Non-Cash items included in cost of operations:

Less: Amortization of capital assets (1,249,227)

Services provided without charge (500,000)

Statement of Financial Position adjustments:

Increase in accounts payable and accrued liabilities (3,304,199)

Increase in accrued salaries and employee benefits (786,931)

Increase in receivables 470,578

Cash provided by operating activities 16,490,153

INVESTING ACTIVITIES

Net acquisitions of Capital Assets 15,931,653

Cash provided by investing activities 15,931,653

Net Cash provided by Government \$ 32,421,806

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

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

FOR THE YEAR ENDED MARCH 31, 2002

27

1. Authority and Objectives

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

2. Summary of Significant Accounting Policies

(a) Basis of Preparation

These financial statements have been prepared on an accrual basis of accounting in accordance with Treasury Board Accounting Standards. These Standards are based on generally accepted accounting principles in Canada. The primary source of the accounting principles is from the recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants supplemented by the recommendations of the Accounting Standards Board of the Canadian Institute of Chartered Accountants for situations not covered by the Public Sector Accounting Board. Readers of these statements are cautioned that the introduction of accrual accounting at the departmental level is evolutionary. Not all assets, liabilities and expenses applicable to a department are recorded at the departmental level at this time. For example, any unfunded portion of FINTRAC's liability for future employee benefits under the Public Service Superannuation Plan is not recorded in FINTRAC's financial statements. As such, the financial statements are not necessarily complete. The accompanying notes provide additional detail and should be read with care. All such assets, liabilities and expenses are recorded at a government-wide level in the financial statements of the Government of Canada.

(b) Parliamentary Appropriations

FINTRAC is financed by the Government of Canada through Parliamentary appropriations. Appropriations provided to FINTRAC do not parallel financial reporting according to generally accepted accounting principles. They are based in a large part on cash flow requirements. Consequently, items recognized in the statement of operations and the statement of financial position are not necessarily the same as those provided through appropriations from Parliament. Note 10 to these financial statements provides a high-level reconciliation between the two bases of reporting as well as information regarding the source and disposition of these authorities.

(c) Consolidated Revenue Fund

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

(d) Expenses

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

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

(e) Capital Assets

All assets treated as capital assets under Public Sector Accounting Board Recommendations, plus leasehold

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

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

(f) Contributions to Public Service Superannuation Plan

FINTRAC's eligible employees participate in the Public Service Superannuation Plan administered by the Government of Canada. Both the employees and FINTRAC contribute to the cost of the Plan. FINTRAC's contribution in the year was \$864,834. Contributions by FINTRAC in respect of current service are expensed in the year in which the contributions are made. Actuarial surpluses or deficiencies are not recorded in FINTRAC's books but are recognized in the consolidated financial statements of the Government of Canada.

(g) Services Provided Without Charge by Other Government Departments

Services provided without charge by other government departments are recorded as operating expenses by FINTRAC at their estimated cost. A corresponding amount is credited directly to the Equity of Canada.

(h) Foreign Currency Transactions

Transactions involving foreign currencies are translated into Canadian dollar equivalents using rates of exchange in effect at the time of those transactions. Assets and liabilities denominated in foreign currencies are translated using exchange rates in effect on March 31, 2002.

3. Comparative Figures

In the previous year, FINTRAC prepared its financial results in terms of source and disposition of appropriations. This is the first year that a set of financial statements, including a Statement of Financial Position, Statement of Operations and a Statement of Cash Flow, has been prepared on a full-accrual accounting basis. It is neither practical nor possible for FINTRAC to show comparative amounts on the Statement of Operations and Equity of Canada, and the Statement of Cash Flow, because the information is not available and any estimation of previous years would not be able to be substantiated with any degree of precision.

5. Capital Assets

	Cost as at April 1, 2001	Net Additions	Cost as at March 31, 2002	Accumulated Amortization	Net Book Value at March 31, 2002	Net Book Value at April 1, 2001
Machinery and equipment	493,577	548,257	1,041,834	143,948	897,886	432,421
Office furniture	893,037	476,584	1,369,621	100,872	1,268,749	833,501
Informatics hardware	4,494,189	9,103,307	13,597,496	1,683,198	11,914,298	3,557,330
Informatics software	—	5,393,481	5,393,481	365,775	5,027,706	—
Leasehold improvements	—	410,024	410,024	12,985	397,039	—
	5,880,803	15,931,653	21,812,456	2,306,778	19,505,678	4,823,252

Amortization expense for the year ended March 31, 2002 is \$1,249,227.

6. Related Party Transactions

FINTRAC is related in terms of common ownership to all Government of Canada departments, and Crown Corporations. FINTRAC enters into transactions with these entities in the normal course of business and on normal trade terms. FINTRAC has expenses of \$4,232,271 incurred from transactions in the normal course of business with other Government departments during the year.

4. Measurement Uncertainty

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

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

	2002
Accounts Receivable:	
Other Government Departments	470,578
Total	\$ 470,578
Accounts Payable:	
Other Government Departments	1,150,447
External Parties	2,153,752
Total	\$ 3,304,199

7. Accrued Compensation

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

8. Commitments

FINTRAC has entered into lease arrangements for office space in 5 locations across Canada. The minimum aggregate annual payments for future fiscal years are as follows:

2002-03	\$ 1,655,280
2003-04	1,568,470
2004-05	1,481,659
2005-06	869,187
2006-07	431,706
Total	\$ 6,006,302

9. Contingencies

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

10. Parliamentary Appropriations

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

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

	2002
Net Cost of Operations	\$ 21,859,932
Adjustments for items not affecting appropriations:	
Less: Amortization	(1,249,227)
Vacation and Compensatory Time	(280,880)
Services provided without charge	(500,000)
	19,829,825
Adjustments for items affecting appropriations:	
Add: Capital acquisitions	15,931,653
Total Parliamentary appropriations used	\$ 35,761,478

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

	2002
Parliamentary appropriations — voted:	
Vote 30, 30(a) and 30(b)	
— Operating expenditures	\$ 34,455,524
Statutory contributions to employee benefit plans	1,321,085
	35,776,609
Less: Lapsed appropriation — operating	(15,131)
Total Parliamentary appropriations used	\$ 35,761,478

THE 40 RECOMMENDATIONS OF THE FATF (1996)

General Framework of the Recommendations

Recommendation 1

Each country should take immediate steps to ratify and to implement fully, the 1988 United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (the Vienna Convention).

Recommendation 2

Financial institution secrecy laws should be conceived so as not to inhibit implementation of these recommendations.

Recommendation 3

An effective money laundering enforcement program should include increased multilateral co-operation and mutual legal assistance in money laundering investigations and prosecutions and extradition in money laundering cases, where possible.

Role of National Legal Systems in Combating Money Laundering

Scope of the Criminal Offence of Money Laundering

Recommendation 4

Each country should take such measures as may be necessary, including legislative ones, to enable it to criminalize money laundering as set forth in the Vienna Convention. Each country should extend the offence of drug money laundering to one based on serious offences. Each country would determine which serious crimes would be designated as money laundering predicate offences.

Recommendation 5

As provided in the Vienna Convention, the offence of money laundering should apply at least to knowing money laundering activity, including the concept that knowledge may be inferred from objective factual circumstances.

Recommendation 6

Where possible, corporations themselves — not only their employees — should be subject to criminal liability.

Provisional Measures and Confiscation

Recommendation 7

Countries should adopt measures similar to those set forth in the Vienna Convention, as may be necessary, including legislative ones, to enable their competent authorities to confiscate property laundered, proceeds from, instrumentalities used in or intended for use in the commission of any money laundering offence, or property of corresponding value, without prejudicing the rights of bona fide third parties.

Such measures should include the authority to: 1) identify, trace and evaluate property which is subject to confiscation; 2) carry out provisional measures, such as freezing and seizing, to prevent any dealing, transfer or disposal of such property; and 3) take any appropriate investigative measures.

In addition to confiscation and criminal sanctions, countries also should consider monetary and civil penalties, and/or proceedings including civil proceedings, to void contracts entered into by parties, where

parties knew or should have known that as a result of the contract, the State would be prejudiced in its ability to recover financial claims, e.g. through confiscation or collection of fines and penalties.

Role of the Financial System in Combating Money Laundering

Recommendation 8

Recommendations 10 to 29 should apply not only to banks, but also to non-bank financial institutions. Even for those non-bank financial institutions which are not subject to a formal prudential supervisory regime in all countries, for example bureaux de change, governments should ensure that these institutions are subject to the same anti-money laundering laws or regulations as all other financial institutions and that these laws or regulations are implemented effectively.

Recommendation 9

The appropriate national authorities should consider applying Recommendations 10 to 21 and 23 to the conduct of financial activities as a commercial undertaking by businesses or professions which are not financial institutions, where such conduct is allowed or not prohibited. Financial activities include, but are not limited to, those listed in the attached annex. It is left to each country to decide whether special situations should be defined where the application of anti-money laundering measures is not necessary, for example, when a financial activity is carried out on an occasional or limited basis.

Customer Identification and Record-keeping Rules

Recommendation 10

Financial institutions should not keep anonymous accounts or accounts in obviously fictitious names: they should be required (by law, by regulations, by agreements between supervisory authorities and financial institutions or by self-regulatory agreements among financial institutions) to identify, on the basis of an official or other reliable identifying document, and record the identity of their clients, either occasional or usual, when establishing business relations or conducting transactions (in particular opening of accounts or passbooks, entering into fiduciary transactions, renting of safe deposit boxes, performing large cash transactions).

In order to fulfill identification requirements concerning legal entities, financial institutions should, when necessary, take measures:

- i. to verify the legal existence and structure of the customer by obtaining either from a public register or from the customer or both, proof of incorporation, including information concerning the customer's name, legal form, address, directors and provisions regulating the power to bind the entity.
- ii. to verify that any person purporting to act on behalf of the customer is so authorized and identify that person.

Recommendation 11

Financial institutions should take reasonable measures to obtain information about the true identity of the persons on whose behalf an account is opened or a transaction conducted if there are any doubts as to whether these clients or customers are acting on their own behalf, for example, in the case of domiciliary companies (i.e. institutions, corporations, foundations, trusts, etc. that do not conduct any commercial or manufacturing business or any other form of commercial operation in the country where their registered office is located).

Recommendation 12

Financial institutions should maintain, for at least five years, all necessary records on transactions, both domestic or international, to enable them to comply swiftly with information requests from the competent authorities. Such records must be sufficient to permit reconstruction of individual transactions (including the amounts and types of currency involved if any) so as to provide, if necessary, evidence for prosecution of criminal behaviour.

Financial institutions should keep records on customer identification (e.g. copies or records of official identification documents like passports, identity cards, driving licenses or similar documents), account files and business correspondence for at least five years after the account is closed.

These documents should be available to domestic competent authorities in the context of relevant criminal prosecutions and investigations.

Recommendation 13

Countries should pay special attention to money laundering threats inherent in new or developing technologies that might favour anonymity, and take measures, if needed, to prevent their use in money laundering schemes.

Increased Diligence of Financial Institutions

Recommendation 14

Financial institutions should pay special attention to all complex, unusual large transactions, and all unusual patterns of transactions, which have no apparent economic or visible lawful purpose. The background and purpose of such transactions should, as far as possible, be examined, the findings established in writing, and be available to help supervisors, auditors and law enforcement agencies.

Recommendation 15

If financial institutions suspect that funds stem from a criminal activity, they should be required to report promptly their suspicions to the competent authorities.

Recommendation 16

Financial institutions, their directors, officers and employees should be protected by legal provisions from criminal or civil liability for breach of any restriction on disclosure of information imposed by contract or by any legislative, regulatory or administrative provision, if they report their suspicions in good faith to the competent authorities, even if they did not know precisely what the underlying criminal activity was, and regardless of whether illegal activity actually occurred.

Recommendation 17

Financial institutions, their directors, officers and employees, should not, or, where appropriate, should not be allowed to, warn their customers when information relating to them is being reported to the competent authorities.

Recommendation 18

Financial institutions reporting their suspicions should comply with instructions from the competent authorities.

Recommendation 19

Financial institutions should develop programs against money laundering. These programs should include, as a minimum:

- i. the development of internal policies, procedures and controls, including the designation of compliance officers at management level, and adequate screening procedures to ensure high standards when hiring employees;
- ii. an ongoing employee training program;
- iii. an audit function to test the system.

Measures to Cope with the Problem of Countries with No or Insufficient Anti-Money Laundering Measures

Recommendation 20

Financial institutions should ensure that the principles mentioned above are also applied to branches and majority owned subsidiaries located abroad, especially in countries which do not or insufficiently apply these Recommendations, to the extent that local applicable laws and regulations permit. When local applicable laws and regulations prohibit this implementation, competent authorities in the country of the mother institution should be informed by the financial institutions that they cannot apply these Recommendations.

Recommendation 21

Financial institutions should give special attention to business relations and transactions with persons, including companies and financial institutions, from countries which do not or insufficiently apply these Recommendations. Whenever these transactions have no apparent economic or visible lawful purpose, their background and purpose should, as far as possible, be examined, the findings established in writing, and be available to help supervisors, auditors and law enforcement agencies.

Other Measures to Avoid Money Laundering

Recommendation 22

Countries should consider implementing feasible measures to detect or monitor the physical cross-border transportation of cash and bearer negotiable instruments, subject to strict safeguards to ensure proper use of information and without impeding in any way the freedom of capital movements.

Recommendation 23

Countries should consider the feasibility and utility of a system where banks and other financial institutions and intermediaries would report all domestic and international currency transactions above a fixed amount, to a national central agency with a computerized data base, available to competent authorities for use in money laundering cases, subject to strict safeguards to ensure proper use of the information.

Recommendation 24

Countries should further encourage in general the development of modern and secure techniques of money management, including increased use of checks, payment cards, direct deposit of salary checks, and book entry recording of securities, as a means to encourage the replacement of cash transfers.

Recommendation 25

Countries should take notice of the potential for abuse of shell corporations by money launderers and should consider whether additional measures are required to prevent unlawful use of such entities.

Implementation and Role of Regulatory and Other Administrative Authorities**Recommendation 26**

The competent authorities supervising banks or other financial institutions or intermediaries, or other competent authorities, should ensure that the supervised institutions have adequate programs to guard against money laundering. These authorities should co-operate and lend expertise spontaneously or on request with other domestic judicial or law enforcement authorities in money laundering investigations and prosecutions.

Recommendation 27

Competent authorities should be designated to ensure an effective implementation of all these Recommendations, through administrative supervision and regulation, in other professions dealing with cash as defined by each country.

Recommendation 28

The competent authorities should establish guidelines which will assist financial institutions in detecting suspicious patterns of behaviour by their customers. It is understood that such guidelines must develop over time, and will never be exhaustive. It is further understood that such guidelines will primarily serve as an educational tool for financial institutions' personnel.

Recommendation 29

The competent authorities regulating or supervising financial institutions should take the necessary legal or regulatory measures to guard against control or acquisition of a significant participation in financial institutions by criminals or their confederates.

Strengthening of International Co-operation**Administrative Co-operation*****Exchange of general information*****Recommendation 30**

National administrations should consider recording, at least in the aggregate, international flows of cash in whatever currency, so that estimates can be made of cash flows and reflows from various sources abroad, when this is combined with central bank information. Such information should be made available to the International Monetary Fund and the Bank for International Settlements to facilitate international studies.

Recommendation 31

International competent authorities, perhaps Interpol and the World Customs Organization, should be given responsibility for gathering and disseminating information to competent authorities about the latest developments in money laundering and money laundering techniques. Central banks and bank regulators could do the same on their network. National authorities in various spheres, in consultation with trade associations, could then disseminate this to financial institutions in individual countries.

Exchange of information relating to suspicious transactions

Recommendation 32

Each country should make efforts to improve a spontaneous or “upon request” international information exchange relating to suspicious transactions, persons and corporations involved in those transactions between competent authorities. Strict safeguards should be established to ensure that this exchange of information is consistent with national and international provisions on privacy and data protection.

Other Forms of Co-operation

Basis and means for co-operation in confiscation, mutual assistance and extradition

Recommendation 33

Countries should try to ensure, on a bilateral or multilateral basis, that different knowledge standards in national definitions — i.e. different standards concerning the intentional element of the infraction — do not affect the ability or willingness of countries to provide each other with mutual legal assistance.

Recommendation 34

International co-operation should be supported by a network of bilateral and multilateral agreements and arrangements based on generally shared legal concepts with the aim of providing practical measures to affect the widest possible range of mutual assistance.

Recommendation 35

Countries should be encouraged to ratify and implement relevant international conventions on money laundering such as the 1990 Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime.

Focus of improved mutual assistance on money laundering issues

Recommendation 36

Co-operative investigations among countries’ appropriate competent authorities should be encouraged. One valid and effective investigative technique in this respect is controlled delivery related to assets known or suspected to be the proceeds of crime. Countries are encouraged to support this technique, where possible.

Recommendation 37

There should be procedures for mutual assistance in criminal matters regarding the use of compulsory measures including the production of records by financial institutions and other persons, the search of persons and premises, seizure and obtaining of evidence for use in money laundering investigations and prosecutions and in related actions in foreign jurisdictions.

Recommendation 38

There should be authority to take expeditious action in response to requests by foreign countries to identify, freeze, seize and confiscate proceeds or other property of corresponding value to such proceeds, based on money laundering or the crimes underlying the laundering activity. There should also be arrangements for coordinating seizure and confiscation proceedings which may include the sharing of confiscated assets.

Recommendation 39

To avoid conflicts of jurisdiction, consideration should be given to devising and applying mechanisms for determining the best venue for prosecution of defendants in the interests of justice in cases that are subject to prosecution in more than one country. Similarly, there should be arrangements for coordinating seizure and confiscation proceedings which may include the sharing of confiscated assets.

Recommendation 40

Countries should have procedures in place to extradite, where possible, individuals charged with a money laundering offence or related offences. With respect to its national legal system, each country should recognize money laundering as an extraditable offence. Subject to their legal frameworks, countries may consider simplifying extradition by allowing direct transmission of extradition requests between appropriate ministries, extraditing persons based only on warrants of arrests or judgments, extraditing their nationals, and/or introducing a simplified extradition of consenting persons who waive formal extradition proceedings.

THE 8 SPECIAL RECOMMENDATIONS OF THE FATF ON TERRORIST FINANCING (2001)

Recognizing the vital importance of taking action to combat the financing of terrorism, the FATF has agreed these Recommendations, which, when combined with the FATF Forty Recommendations on money laundering, set out the basic framework to detect, prevent and suppress the financing of terrorism and terrorist acts.

I. Ratification and implementation of UN instruments

Each country should take immediate steps to ratify and to implement fully the 1999 United Nations International Convention for the Suppression of the Financing of Terrorism.

Countries should also immediately implement the United Nations resolutions relating to the prevention and suppression of the financing of terrorist acts, particularly United Nations Security Council Resolution 1373.

II. Criminalizing the financing of terrorism and associated money laundering

Each country should criminalize the financing of terrorism, terrorist acts and terrorist organizations. Countries should ensure that such offences are designated as money laundering predicate offences.

III. Freezing and confiscating terrorist assets

Each country should implement measures to freeze without delay funds or other assets of terrorists, those who finance terrorism and terrorist organizations in accordance with the United Nations resolutions relating to the prevention and suppression of the financing of terrorist acts.

Each country should also adopt and implement measures, including legislative ones, which would enable the competent authorities to seize and confiscate property that is the proceeds of, or used in, or intended or allocated for use in, the financing of terrorism, terrorist acts or terrorist organizations.

IV. Reporting suspicious transactions related to terrorism

If financial institutions, or other businesses or entities subject to anti-money laundering obligations, suspect or have reasonable grounds to suspect that funds are linked or related to, or are to be used for terrorism, terrorist acts or by terrorist organizations, they should be required to report promptly their suspicions to the competent authorities.

V. International co-operation

Each country should afford another country, on the basis of a treaty, arrangement or other mechanism for mutual legal assistance or information exchange, the greatest possible measure of assistance in connection with criminal, civil enforcement, and administrative investigations, inquiries and proceedings relating to the financing of terrorism, terrorist acts and terrorist organizations.

Countries should also take all possible measures to ensure that they do not provide safe havens for individuals charged with the financing of terrorism, terrorist acts or terrorist organizations, and should have procedures in place to extradite, where possible, such individuals.

VI. Alternative remittance

Each country should take measures to ensure that persons or legal entities, including agents, that provide a service for the transmission of money or value, including transmission through an informal money or value transfer system or network, should be licensed or registered and subject to all the FATF Recommendations that apply to banks and non-bank financial institutions. Each country should ensure that persons or legal entities that carry out this service illegally are subject to administrative, civil or criminal sanctions.

VII. Wire transfers

Countries should take measures to require financial institutions, including money remitters, to include accurate and meaningful originator information (name, address and account number) on funds transfers and related messages that are sent, and the information should remain with the transfer or related message through the payment chain.

Countries should take measures to ensure that financial institutions, including money remitters, conduct enhanced scrutiny of and monitor for suspicious activity funds transfers which do not contain complete originator information (name, address and account number).

VIII. Non-profit organizations

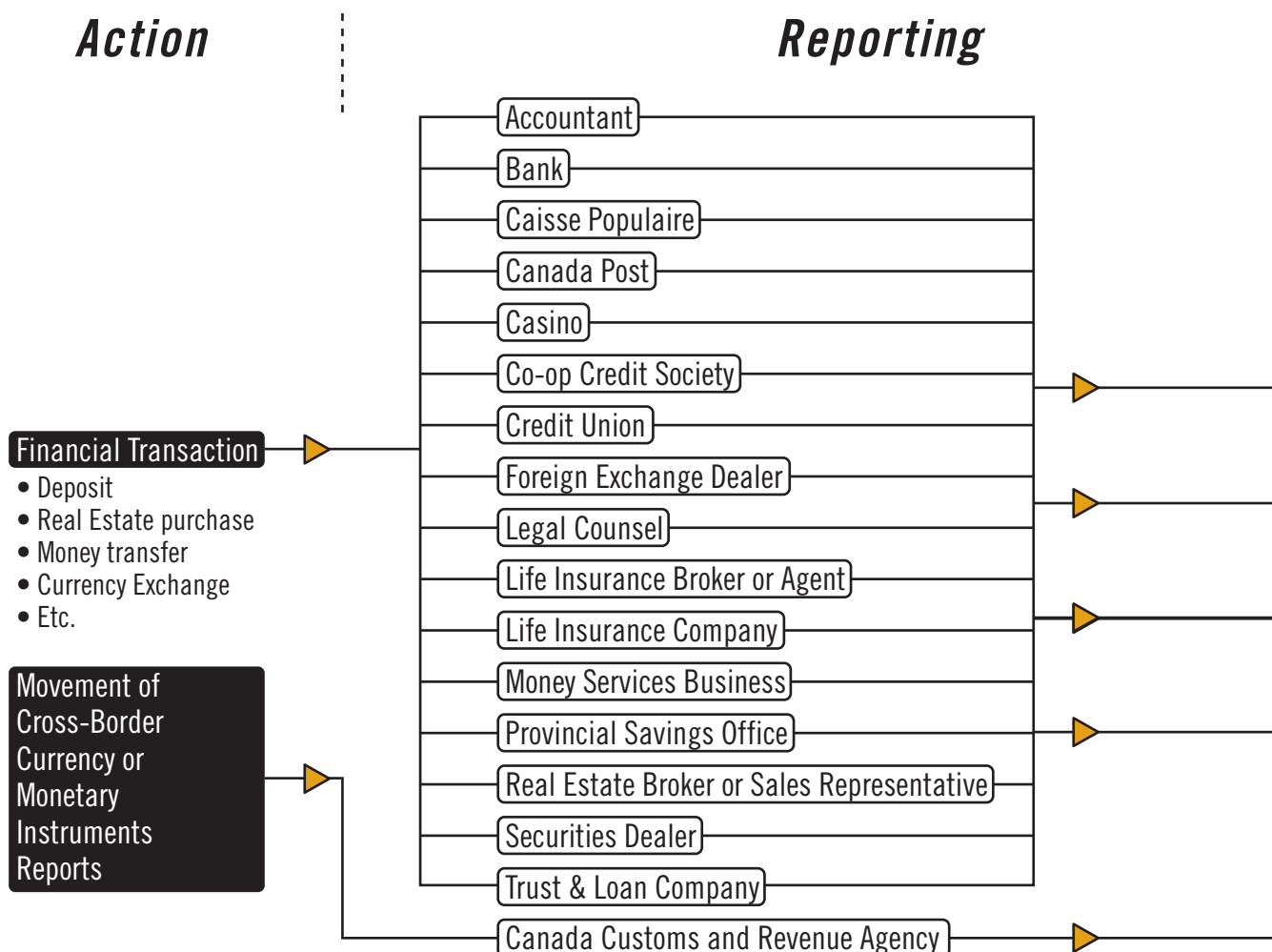
Countries should review the adequacy of laws and regulations that relate to entities that can be abused for the financing of terrorism. Non-profit organizations

are particularly vulnerable, and countries should ensure that they cannot be misused:

- i. by terrorist organizations posing as legitimate entities;
- ii. to exploit legitimate entities as conduits for terrorist financing, including for the purpose of escaping asset freezing measures; and
- iii. to conceal or obscure the clandestine diversion of funds intended for legitimate purposes to terrorist organizations.

> APPENDIX 3

FINTRAC BUSINESS PROCESS



A variety of transactions may be made to move money and attempt to hide its origin and/or the intended recipient

Reports based on different types of transactions are provided to FINTRAC.



Government
of Canada

Gouvernement
du Canada



**Financial Transactions and
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