Money Laundering Detection

Name: Ke Xin Chen

Date: July 1, 2010

Course: ACC 626
# Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>1</td>
</tr>
<tr>
<td>What is Money Laundering</td>
<td>1</td>
</tr>
<tr>
<td>Needs for Anti Money Laundering</td>
<td>1</td>
</tr>
<tr>
<td>Terrorist Financing</td>
<td>2</td>
</tr>
<tr>
<td>International Efforts in Anti-Money Laundering and Terrorist Financing</td>
<td>3</td>
</tr>
<tr>
<td>Canadian Regulations on Anti-Money Laundering and Terrorist Financing</td>
<td>4</td>
</tr>
<tr>
<td>Responsibilities of Public Accountants in Anti-Money Laundering</td>
<td>5</td>
</tr>
<tr>
<td>Establishing a Compliance Program</td>
<td>6</td>
</tr>
<tr>
<td>Implications for Public Accountants performing Assurance Engagements</td>
<td>7</td>
</tr>
<tr>
<td>AML Compliance as a Service</td>
<td>8</td>
</tr>
<tr>
<td>Obligation of Anti-Money Laundering for Companies</td>
<td>8</td>
</tr>
<tr>
<td>Casinos</td>
<td>9</td>
</tr>
<tr>
<td>Dealers in Precious Metals</td>
<td>9</td>
</tr>
<tr>
<td>Financial Entities</td>
<td>9</td>
</tr>
<tr>
<td>Tools for Anti-Money Laundering Detection</td>
<td>10</td>
</tr>
<tr>
<td>Conclusion</td>
<td>11</td>
</tr>
<tr>
<td>Appendix 1 - SAS AML Screen Shots</td>
<td>12</td>
</tr>
<tr>
<td>Appendix 2 - Work Cited</td>
<td>14</td>
</tr>
<tr>
<td>Appendix 3 - Annotated Bibliographies</td>
<td>16</td>
</tr>
</tbody>
</table>
Introduction

How to track and control the flow of money obtained illegally has been an age old problem. Money laundering detection is a key process in anti-gang activities and the war against terror. Effective anti-money laundering controls could inhibit the spread of drug trades, human trafficking and terrorism. Since 9/11, the United States has led the strengthening of money laundering controls around with world with the introduction of the USE Patriot Act.

Professional accountants are the public watchdog for companies and organizations. They have an inherent duty to ensure that companies and organizations are not engaged in these activities. In addition, accountants also have to comply with regulations within Canada and abroad when performing non-assurance activities. Other industries with regulatory concerns include banks, casinos, securities exchanges and jewellery dealers. There is no doubt that money laundering compliance will increase the cost of operations for accounting firms. However, accounting firms have also found a new revenue stream by providing AML compliance services.

What is Money Laundering

Money laundering is act of transforming “dirty” money to “clean” money. Through this process the origin of the money is disguised. The goal of money laundering is “to integrate funds from illegal origins into the mainstream economy.” In fact, significant money laundering activities can seriously inhibited the operations of an economy. Researchers conducted by International Monetary Fund have showed that there is an inverse relationship between money laundering activities and the gross domestic product of an economy. Money laundering became more prominence after 9/11 because of the US PATORIT

Money laundering is usually achieved through three stages: placement, layering and integration. The process starts with placing the proceeds to the financial system. Then the amount would transform into other currencies or commodities. By funnelling through the financial system, “dirty” money are cleansed and ready to be integrated with the main stream economy. Criminals usually choose to purchase public stock, real-estate or interests in small businesses.

Needs for Anti Money Laundering

The scope of worldwide money laundering activities cannot be measured due to the activity’s secrecy nature. Criminal prosecutions related to money laundering amounts to $1 trillion worldwide each

---

2 Ibid.
3 Ibid.
4 Ibid. p15
year. However, this is only the “tip of the iceberg”. Money laundering activities are the back bone of an underground economy. It is estimated by the World Bank that the underground economy amounts to 5% of the modern economy. In some countries and jurisdictions, money laundering and related activities are estimated as high as 20% of the GDP. The magnitude of money laundering activities and its ability to support criminal activities has provided enough incentives for governments around the world to fight against it.

In addition, tax evaders use money laundering techniques to integrate their un-taxed earnings back to the economy. Therefore, adequate money laundering will be able to limit the growth of underground economy. Hence, money laundering controls will enhance a nations’ taxation system and increase state incomes.

In Canada, most money laundering activities are related to criminal activities and tax evasions. These activities can deeply impact the overall health of the Canadian economy. In 2006, Frank Tran, a Vancouver resident has laundered over $200 million dollars of “drug money”. It had a devastating impact to the surround neighbourhood. The $200 million is directly related to the sale of 300 kilograms of cocaine on Vancouver Streets. Therefore, effective anti-money laundering controls could effectively eliminate criminal activities and underground economy.

**Terrorist Financing**

Recently, studies from the World Bank or other economic committees have shown that terrorism activities have decreased in cost in recent years. It was estimated that less than $50,000 is required to carry out a bombing attack. Recent findings from the “the Bin Laden files” suggested that terrorism financing has been done in small amounts and multiple transaction. Regardless of the amount, terrorism activities require money. There is always a money trail behind any terrorism activities. Funding for terrorism traditionally came from two sources: financial support in donations or revenue generating activities. Majority of the revenue generating activities are criminal in nature, such as human trafficking, drug smuggling or gang activities. Either way, funds need to be transferred discretely across borders and financial institutions. Terrorists have applied many of the money laundering method to transfer fund discretely. The money trail behind a terrorist group could look very similar to money laundering activities.
Ke Xin Chen, Money Laundering Detection

Therefore, effective anti-money laundering controls could also detected terrorist financing activities and predict the location and scale of their activities.

International Efforts in Anti-Money Laundering and Terrorist Financing

Anti-money laundering efforts could limit the spread of criminal and terrorist activities. To effectively deteriorate money laundering activities, the effort has to be done internationally. This can ensure that there aren’t any jurisdictions with weak controls that could harbour money laundering and terrorist financing activities.

After 9/11, the United States government enacted the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act). "The goal of the Act is to deter and punish terrorist acts in the United States and around the world."13 Although the goal was focused on terrorism activities, measures of the Act were also geared for detection of international money laundering activities. The Act applies to all industries with the focus of financial institutions. It requires all financial institutions operating in the United States to comply. It requires companies to establish internal controls to detect money laundering activities and maintain “Bank Records Related to Anti-Money Laundering Programs”14. Heavy fines are imposed for none compliance.

Switzerland is renowned for the secrecy of its banking system. However, the country has also pitched in efforts to counter money laundering activities. Anti-Money Laundering regulations are self-regulated by an independent body - the Swiss Financial Market Supervisory Authority in the country15. This authority was established in 200916. The body is self-regulated and focused only on financial institutions. The authority publishes regulations on monitoring, detection and reporting of money laundering activities. It published financial institution AML compliance regulations and enforces these with powers from the Financial Market Supervisory Act17.

The International Monetary Fund has also contributed its share to this battle. For the past 10 years, the Fund established a program that assesses each country’s compliance with international standard and assisted countries that needs technical help18. Currently, the Fund is " moving towards a

---

14 Ibid.
16 Ibid.
Ke Xin Chen, Money Laundering Detection

targeted, risk-focused approach to AML/CFT assessments\textsuperscript{19} to provide better service for countries worldwide. This effort is funded by donor states. They are “Canada, France, Japan, Korea, Kuwait, Luxembourg, the Netherlands, Norway, Qatar, Saudi Arabia, Switzerland, and the United Kingdom\textsuperscript{20}.” In addition, the Financial Action Task Force (FATF) is “an inter-governmental body established to develop and promote policy to combat money laundering and terrorist financing.”\textsuperscript{21} Since its establishment in 1989, FATF issues reports on money laundering detection techniques and statutory recommendations for world nations.

In the last decade, most of the international effort has been emphasized on imposing regulations on the financial sector. The goal was to limit and inhibit money laundering and terrorist financing activities. However, the effectiveness of the program cannot be measured because the scale of money laundering activity cannot be reliably estimated. It is argued by some that extensive money laundering controls imposed in recent years has taken away some of the civil liberty. Months after the passing of the PATRIOT Act, Richard Rahn questioned the effectiveness of some money laundering controls\textsuperscript{22}. In specific, the requirement of reporting cash transaction that exceeds $10,000 to the U.S. government for all organizations. He has argued that less than a fraction of a percent of these transaction leads to money laundering activities. In the process, mass amount of personal information was collected and forwarded to different agencies which lead to civil liberty issues\textsuperscript{23}.

Money laundering is an international effort. Although, it might seem that some efforts are results of over reaction of an events such as 9/11. Facts from the “Bin Laden” files have suggested that these efforts do have an effect on terrorist activities. Money has been transferred in smaller amounts, in thousands of dollars and that the operations have been in smaller scales\textsuperscript{24}. The International efforts have effectively prevented terrorist groups to stage large scale operations such as the 9/11.

**Canadian Regulations on Anti-Money Laundering and Terrorist Financing**

Canada as a major player in the world economy has also committed itself to develop a set of regulations for anti-money laundering and terrorist financing activities. Financial Transaction and Reports Analysis Center of Canada (FINTRAC) is the government agency that is in charge of money laundering. FINTRAC is the regulatory body under the Proceeds of Crime (Money Laundering) and Terrorist

\textsuperscript{19} IMF Executive Board reviews efforts in anti-money laundering.
\textsuperscript{20} Ibid.
\textsuperscript{23} Ibid.
\textsuperscript{24} Levitt, Matthew. "Checkbook Jihad."
Financing Act (PCMLTFA)\textsuperscript{25}. The Act applies to anyone or any organization that transfer or remit funds and precious objects which includes financial institutions, credit unions, casinos, exchanges, dealers, professional and individuals.\textsuperscript{26} The Act requires all of those who apply to monitor and report suspicious activities. It also established heavy penalties for non-compliance which starts from $500,000 to a maximum of $2 million and five years of imprisonment\textsuperscript{27}.

A feature of the Act is that any cash transactions over the amount of $10,000 should be reported to FINTRAC. The source and intended use of the fund needs to be disclosed in the report. In addition, any transaction of funds greater than $3,000 must accompany by a receipt\textsuperscript{28}. In addition, organizations involved must keep records of all transactions and properly document all suspicious activities. These records are subject to investigation by the FINTRAC\textsuperscript{29}.

**Responsibilities of Public Accountants in Anti-Money Laundering**

Public Accountants are the few outsiders gets an inside look of a company. Without accounting and assurance the modern capitalist economy cannot function. This important profession must also comply with anti-money laundering legislations and report suspicious activities to FINTRAC in Canada\textsuperscript{30}.

Under Part 1 of the Act, PCMLTFA applies to all public accountants, including Chartered Accountants, CMAs and CGAs, who serves as a financial intermediary\textsuperscript{31}. The Act defines “financial intermediary” as:

\(\text{”(a) engage in any of the following activities on behalf of any person or entity, namely,}\)

- receiving or paying funds,
- purchasing or selling securities, real property or business assets or entities, or
- transferring funds or securities by any means;

\(\text{(b) give instructions on behalf of any person or entity in respect of any activity referred to in paragraph (a); or}\)

\(\text{(c) receive professional fees in respect of any activity referred to in paragraph (a) or in respect of any instructions referred to in paragraph (b).}\)\textsuperscript{32}

\textsuperscript{28} “Canada’s Anti-Money Laundering & Anti-Terrorist Financing Requirements.” CICA.ca, p10.
\textsuperscript{30} Wasserman, H. “Reminder: money laundering regulations apply to CAs.”
\textsuperscript{31} “Canada’s Anti-Money Laundering & Anti-Terrorist Financing Requirements.” CICA.ca, p19
Ke Xin Chen, Money Laundering Detection

Some common activities performed by public accountants that requires compliance to anti-money laundering standards are:

- offer consulting services and business advice to clients;
- act as a trustee for clients and any other type of financial intermediaries; and
- provide income tax advice and tax planning services.

These activities are defined as “triggering activities” in by FINTRAC\(^33\).

However, the PCMLTFA do not apply to Chartered Accountants who “performed audit, review or compilation engagements carried out in accordance with the recommendations set out in the CICA Hand Book.”\(^34\)

On a side note, disclosing client information to a third party in regards to money laundering and terrorist financing activities does not breach the Rules of Professional Conduct. The professional conduct rules were developed by the Institute of Chartered Accountants to ensure that the CA profession maintain high standards in servicing their clients. Duty of confidentiality to clients is one of the fundamental principals in the conduct\(^35\). It states that

> "Members have a duty of confidentiality in respect of information acquired as a result of professional, employment and business relationships and they will not disclose to any third party, without proper and specific authority"

Under normal circumstances CAs should not disclose client information. However, law of statutory regulations override the Rules of Professional Conduct\(^36\). When a CA firm is performing triggering activities, it should report any suspicious activities and cash transactions over $10,000 to FINTRAC. In addition, the firm shall “not tip off a client that a report has been made.”\(^37\) Any non-compliance is subject to heavy fines. The ant-money laundering requirement will put CAs in situations where there is a conflict of interests\(^38\). However, CAs has a fiduciary duty to the public and server the best interest of the general public. ICAO suggests that CA firms communicate their obligation in regards to anti-money laundering to their clients before an engagement\(^39\). The letter should include the following: legislation regarding anti money laundering; the firm’s reporting obligations and potential need to disclose client’s confidential information.

**Establishing a Compliance Program**

Public accounting firms needs to establish a compliance program to avoid heavy fines imposed by PCMLTFA. An effective compliance program also eliminates potential liabilities for failure to detect money...
laundering activities. All accounting firms should have the program implemented before June 23, 2008.\textsuperscript{40} The program consists of five parts.\textsuperscript{41} First, a firm must designate a compliance officer to oversee the planning and execution of ant-money laundering procedures. The appointed individual must hold an executive or senior position in the firm. The officer also needs to stay up to date with any changes in law and regulations. Second, the firm must establish a documentation program. All suspicious activities and large cash transactions should be well documented. Third, the firm needs to commit personnel in analysing documented transactions looking for trends and possible money laundering activities. Fourth, the firm must carry out compliance training for its staff. These trainings also need to be well documented. Lastly, the effectiveness of the program needs to be evaluated on regular bases and these evaluation procedures need to be well documented.\textsuperscript{42} For most public accounting firms, establishing these compliance program will not be difficult. Much of the requirements involve reporting and documentation. These requirements are similar to the audit process.

The guidelines for compliance program set out by INFTRAC emphasized on reporting of suspicious activities and large cash transactions. Identifying and reporting of large cash transactions are fairly simple. The firm only needs to identify cash or cash like transaction greater than $10,000 when performing triggering activities. Cash like transactions are transactions involving precious metals or stones.\textsuperscript{43} In comparison, the process of identifying suspicious activities is more complicated.

During an engagement, when an accountant “encounters facts that constitute reasonable grounds to suspect a transaction is related to money laundering activities or terrorist activity financing\textsuperscript{44},” the accountant should report this fact to the partner. The partner needs to examine the evidence with the compliance office. Jointly, they should decide whether a report must be made. If the decision is yes, the compliance officer must report the facts of the suspicious activity to FINTRAC. On the other hand, if they decided that the activity does not meet reporting requirements, the compliance officer must document the facts and decision. Reporting suspicious activities requires much more judgment than large cash transactions. For both of the activities, the firm report to FINTRAC “within 30 days of discovery to FINTRAC and place a copy of the report in the compliance file.”\textsuperscript{45}

Implications for Public Accountants performing Assurance Engagements

Accountants who are performing assurance engagements are not required to comply with PCMLTFA. Nevertheless, firms need to be aware of money laundering activities when performing an audit due to the following implications.

\textsuperscript{40} Wasserman, H. “Reminder: money laundering regulations apply to CAs.”
\textsuperscript{41} Wasserman, H. “Reminder: money laundering regulations apply to CAs.”
\textsuperscript{42} Ibid.
\textsuperscript{43} “Canada’s Anti-Money Laundering & Anti-Terrorist Financing Requirements.” CICA.ca, p18
\textsuperscript{44} Ibid. p34
\textsuperscript{45} Ibid.
Ke Xin Chen, Money Laundering Detection

First of all, money laundering and terrorist financing increases the overall audit risk. These activities increase the business risk of the clients which impacts the financial statement level risk. Also, money laundering activities will also increase the auditor’s business risk. If the client’s crimes were discovered, auditors will have risk of loss in reputation and loss of businesses. To reduce the audit risk of an engagement, CA firms should be aware if the company is engaged in money laundering activities

Secondly, money laundering are criminal activities. Usually, companies engaged in money laundering or terrorist financing are also engage in other criminal and fraudulent activities.

“CICA Handbook – Assurance Section 5136, Misstatements – Illegal Acts. Section 5136 requires that practitioners apply their knowledge of the business and make enquiries of management to identify laws and regulations which, if violated, could reasonably be expected to result in a material misstatement in the financial statements”.

Therefore, money laundering and terrorist financing activities will impact the audit opinion. For a clean audit the company cannot have any indications that it engaged in money laundering activities. CAs do not have to activity search for evidence of money laundering in an engagement. However, practitioners should note and document any suspicious activities during the course of the audit work.

AML Compliance as a Service

In addition to compliance requirements, public accounting firms also provide consulting services related to anti-money laundering and counter-terrorist financing. Since the USA PATRIOT Act there are more demands for AML related services. These services includes: risk assessments, health checks, design AML programs, due diligence reports and delivery training programs. Although recent AML compliance requirements have led to more reporting work for firms performing “triggering activities”, they have also established a new revenue streams for professional accounting firms.

Obligation of Anti-Money Laundering for Companies

The money laundering law in Canada is very inclusive. Any individual or entity engaged in transferring monetary assets are subject to PCMLTFA. However, entities do not have obligations to obstruct money laundering activities. Defined by Part 2 of the Act, only an “officer” has the power to perform search, retention and seizures activities. An officer is defined as a customer officer, a member of Royal Canadian Mounted Police or an individual employed to enforce the Custom Act.

Private entities only have the obligation to report and document suspicious activities under PCMLTFA. The process and requirements for compliance are the same as the requirements for public

46 "Canada’s Anti-Money Laundering & Anti-Terrorist Financing Requirements." CICA.ca, p53
47 Ibid.
48 Ibid.
accountants. FINTRAC has developed more specific guidelines for the following organizations based on the Act: “Casinos, Dealers in precious metals and stones, financial entities, life insurance companies, money service business and securities dealers.” These are types of industries which are vulnerable to money laundering crimes.

Casinos

Casino establishments are sensitive to money laundering activities. Most of the transactions carried out in Casinos are cash bases and in large amounts. Casinos need to report suspicious transaction reports and large cash transactions. In addition, Casinos also need to report electronic funds transfers greater than $10,000. Details of the transfer such as SWIFT codes and parties involved needs to be included in the report. Also, Casinos must report and document any cash disbursement of more than $10,000. This is unique to the Casino industry and is coded in Section 10: “Submitting Casino Disbursement Reports to FINTRAC”.

In addition to record keeping and reporting, Casinos must have measures to identify the individuals involved. “Any individual who conducts a transaction of $3,000 or more” must be identified before the completion of the transaction.

Dealers in Precious Metals

In comparison to Casinos, a jeweller’s requirements are much simpler. The company only needs to report suspicious activities and large cash transactions to FINTRAC. In addition, jewellers also need to keep a copy of those reports filed to FINTRAC.

Financial Entities

The reporting requirements for financial entities are similar to the requirements for Casinos. A financial institution needs to report suspicious activities, large cash transactions and wire transfers over $10,000 to FINTRAC. In addition, the institution is required to maintain records of the reports. In addition, the financial institution must also keep records of every aspect imaginable about its clients which includes, but not limited to:

“Signature cards; Copies of official corporate records; Account holder information; Account operating agreements; Deposit slips; Debit and credit memos; Account statements; Cleared cheques drawn on or deposited to an account; Client credit files; Foreign currency exchange transaction tickets; Intended use of an account; Credit card account records; Records for the sale of traveller’s cheques,”

Ibid.
Ibid.
money orders or other similar negotiable instruments of $3,000 or more; Beneficial ownership records.”

Also, an institution must take measure to identify its clients. Some common practices in banks are the direct result of the PCMLTFA. For example, a client must show prove of identification before taking out a large amount of cash. This is to facilitate the bank with its record keeps requirements. Also, a client cannot deposit a large amount of cash before proper documentation to prove its source. However, the bank does not have to power to seize the cash if proper cannot be provided. However, the bank has the right to refuse the deposit.

Canadian banks not only have to comply with PCMLTFA. They need to be certified with the USA Patriot Act in order to serve American customers. In addition, the “Big Four” banks in Canada have chosen a Global approach in compliance standard. They have established a global AML compliance group. In addition, they have established internal audit procedures and oversight boards to ensure compliance.

Tools for Anti-Money Laundering Detection

Sophisticated tools are developed meet compliance standards within Canada and abroad. Since the introduction of the USA PATRIOT Act, financial institutions and other regulated industries are required to process and report a vast amount of data.

In some smaller institutions, manual methods of money laundering detection are used. Morrill and Janes Bank and Trust has assets of $580 million dollars. They have only implemented an Anti-Money Laundering Software in December 2010. Before that, the bank was using manual methods of money laundering detection. This means that employee have to manually identify suspicious customers and suspicious transactions. In addition, large transaction reports are manually sent to reporting authorities.

Due to the complexity of suspicious activity detection and reporting, it is impossible for large multinational banks to use manual methods described above. Many AML compliance software are developed to help large financial institutions to meet compliance standards cost effectively.

NICE Actimize is an AML software suite that is used by 10 of the top 10 US banks. It can be attached the existing IT system of corporations. Actimize provides organization with a complete solution...
for anti-money laundering compliance. The software suite has regulatory requirements embedded in it which could potentially reduce the cost of compliance for organizations. The software have three main features which are suspicious activity monitoring, watch list filtering and customer due diligence. These features ensure companies meet compliance standards and reduce liabilities related to money laundering activities. It clients includes Citi Group, MasterCard, HSBC, UBS, Scotiabank and Renaissance Capital. Recently, the Danish Bank, Saxo Bank has deployed a full suite of Actimize AML software to meet compliance standard. Saxo Bank chooses Actimize because “NICE Actimize has a wealth of expertise in the capital markets industry” reported by Investment Weekly.

SAS AML software suite has similar feature as Actimize. They both serve the purpose of meeting AML compliance. Screen shots of SAS AML are provided in Appendix 1. In addition, smaller consulting firms also offer anti-money laundering and counter terrorist financing software. ATTUS Technologies is a mid-size consulting firm providing compliance software to USA Patriot Act and other AML regulations. Clients of smaller firms tend to be mid-size clients or clients with less AML requirements. ATTUS’s clients includes First Hawaiian Bank, Travelocity, Linkein and Assurant.

Conclusion

In conclusion, Anti-money laundering financing and counter terrorist financing activities requires much resource from private entities, industries and governments. The accounting profession is also playing an important in this scheme. The public accountants ensure that businesses are following money laundering compliance strands and that businesses they do business with are not engaged in money laundering or terrorist financing activities. Currently, accounting professionals are not responsible to check client compliance during the normal course of an audit. However, it is highly likely that accounting firms will not accept an engagement which its clients engaged in money laundering activities. Therefore, public accountants can effectively limit some money laundering activities.

63 "Actimize Products." NICE Actimize
Appendix 1 - SAS AML Screen Shots

http://www.sas.com/resources/screenshot/anti-money-laundering-1.jpg

http://www.sas.com/resources/screenshot/anti-money-laundering-2.jpg
http://www.sas.com/resources/screenshot/anti-money-laundering-3.jpg
Appendix 2 - Work Cited


### Appendix 3 - Annotated Bibliographies

<table>
<thead>
<tr>
<th>Author</th>
<th>Title of Article</th>
<th>Periodical/ website</th>
<th>Vol. / No. / Edition</th>
<th>Year published</th>
<th>Pages</th>
<th>Date accessed</th>
<th>Location, data base, website, link</th>
</tr>
</thead>
<tbody>
<tr>
<td>N/A</td>
<td>Frequently Asked Questions on Money Laundering</td>
<td>Canadian Institute of Chartered Accountants</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>May 24, 2011</td>
<td>CICA.ca LINK</td>
</tr>
</tbody>
</table>

**Annotation #1**

This FAQ page states that all accountants, including CAs, need to seek compliance with FINTRAC when:

- 
  (a) engage in any of the following activities on behalf of any person or entity, namely,
  - receiving or paying funds,
  - purchasing or selling securities, real property or business assets or entities, or
  - transferring funds or securities by any means;
- (b) give instructions on behalf of any person or entity in respect of any activity referred to in paragraph (a); or
- (c) receive professional fees in respect of any activity referred to in paragraph (a) or in respect of any instructions referred to in paragraph (b).”

This source is act as a general guideline and primer for this research. It also identified engagements where CAs has to comply with PCMLTFA

<table>
<thead>
<tr>
<th>Author</th>
<th>Title of Article</th>
<th>Periodical/ website</th>
<th>Vol. / No. / Edition</th>
<th>Year published</th>
<th>Pages</th>
<th>Date accessed</th>
<th>Location, data base, website, link</th>
</tr>
</thead>
<tbody>
<tr>
<td>Howard M Wasserman</td>
<td>Reminder: money laundering regulations apply to CAs</td>
<td>CA Magazine</td>
<td>Vol. 141, No. 10 December</td>
<td>2008</td>
<td>17</td>
<td>May 24, 2011</td>
<td>ABI/INFORM Global</td>
</tr>
</tbody>
</table>

**Annotation #2**

Financial Transaction and Reports Analysis Center of Canada (FINTRAC) – a government agency under Department of Finance in charge of money laundering control. The department is established under the Proceeds of Crime (Money Laundering) and Terrorist Financing Act” (PCMLTFA). The article outlined the purpose of the Act. The Act is the Canadian effort to battle against money laundering. Professional accountants are required to assist FINTRAC in the process because they fall under the “financial intermediaries” category. Heavy fines are imposed on non-compliance organizations. To be in compliance, CAs must allocate appropriate resources to this matter.
This guide was published to familiarize chartered accountants to PCMLTFA which comes into effect on June 23, 2008.

Chapter 2-4
These chapters outlined procedures to implement a compliance program for CAs to avoid non-compliance penalties; use FINTRAC Indicators for suspicious transactions and established that amounts involving cash over $10,000 are classified as “prescribed transactions”.

Chapter 6
This chapter discusses two areas in the Rule of Professional Conduct that are relevant with respect to money laundering detection:

- client confidentiality
- association with unlawful activities

Chapter 7
This chapter set out the implications for accountants who are involved in assurance engagements. Although the PCMLTFA does not apply to assurance engagements. “Therefore, practitioners providing such services in Canada do not have a statutory reporting responsibility with respect to money laundering and terrorist financing activities.” However, money laundering is a criminal activity and there are serious consequences. During different type of assurance engagements, CAs could apply guidelines in the CICA Hand Book to avoid potential liabilities due to association of criminal activities.

Appendix A
Reviews money laundering methods that involves CAs such as the use of nominees, “smurfing”, asset purchase with bulk cash, immediate withdrawal, etc.
CAs who acts as financial intermediaries should follow this guideline to avoid potential liabilities. It is divided into the following sections:

- Suspicious Transactions
- Implementation of a Compliance Regime
- Record Keeping and Client Identification
- Alternative to Large Cash Transaction Reports to FINTRAC

And guides for submitting the following reports:

- STR Reports to FINTRAC Electronically
- STR Reports to FINTRAC by Paper
- Large Cash Transaction Reports to FINTRAC
- Electronic Funds Transfer Reports to FINTRAC
- Terrorist Property Reports

The most important section to the paper in this guide is the section on: Implementation of a Compliance Regime.

Historically, the casino industry is always associated with organized crimes and money laundering. One of the largest planned Casinos in British Columbia could not open its doors due to money laundering concerns. Canadian government has recently fined BC gambling corporation for $670,000 when a transaction over $1 million dollars was not reported to FINTRAC.
<table>
<thead>
<tr>
<th>Author</th>
<th>Title of Article</th>
<th>Periodical/ website</th>
<th>Vol. / No. / Edition</th>
<th>Year published</th>
<th>Pages</th>
<th>Date accessed</th>
<th>Location, data base, website, link</th>
</tr>
</thead>
<tbody>
<tr>
<td>N/A</td>
<td>Update on Canada’s 2008 Anti-Money Laundering Requirements for CAs</td>
<td>Canadian Institute of Chartered Accountants</td>
<td>June</td>
<td>2008</td>
<td>1 - 6</td>
<td>May 23, 2011</td>
<td>CICA.ca</td>
</tr>
</tbody>
</table>

**Annotation #6**

Companies that involved in the following industries needs to comply with PCMLTFA:

“banks, cooperative credit societies, savings and credit unions, caisses populaires, life insurance companies, life insurance brokers or agents, trust and loans companies, securities dealers, money services businesses (including foreign exchange dealers), casinos, real estate brokers or sales representatives”

Penalties for non-compliance starts from $500,000 can go up to $2 million and five year imprisonment. Comply with PCMLTFA isn’t complicated. It requires the entity to establish a process in identifying “triggering activities” and to file proper reports to FINTRAC.

<table>
<thead>
<tr>
<th>Author</th>
<th>Title of Article</th>
<th>Periodical/ website</th>
<th>Vol. / No. / Edition</th>
<th>Year published</th>
<th>Pages</th>
<th>Date accessed</th>
<th>Location, data base, website, link</th>
</tr>
</thead>
</table>

**Annotation #7**

This paper criticized the “reluctance or inability of the regulators to pursue … accountants and larger accounting firms involved” in money laundering. The authors have pushed for regulations and compliance standards that apply to public accountants regarding money laundering. This source is an example that accountants always had the risk of involved in money laundering activities either voluntarily or involuntarily.
Real world money laundering cases are hard to find due the activity’s nature. FINTRAC compiled potential money laundering cases in Canada on quarterly bases. Recent and relevant news reports are compiled in categories. This extensive list provides an idea of what kind of industries and business can potentially harbour money laundering activities. Items listed below are cases that more relevant to accounting and IT:

- Texas car dealers assisted criminals in laundering money through luxury cars
- Money laundering through virtual worlds
- Undeclared Canadian income held at two Swiss Banks

Although statutory requirements are required in order to detect money laundering. However, constant monitoring of civilians financial activities raise concerns about civil liberty. Do all cash transactions over $10,000 led to money laundering? No. However, information on these transactions are collected in the form of reports. Less than one percent of these reports actually link to potential criminal activities. This paper is a classic argument against increase in money laundering regulations and prevention programs. However, over the past decade, money laundering prevention programs has spread from financial institutions to all companies in the financial service industry.
<table>
<thead>
<tr>
<th>Author</th>
<th>Title of Article</th>
<th>Periodical/ website</th>
<th>Vol. / No. / Edition</th>
<th>Year published</th>
<th>Pages</th>
<th>Date accessed</th>
<th>Location, data base, website, link</th>
</tr>
</thead>
</table>

**Annotation #10**

Money laundering crimes became harder to detect with the advance in technology. Simply filling out forums on cash amount over a threshold will not be sufficient. This article proposed some new ideas on money laundering control and prevention. The key in money laundering detection is to automate as much process as possible. The authors has proposed an idea of multi bank framework incorporating agents that can collaborate together to detect money laundering activities. These agents could be built on current programming languages such as Java.

<table>
<thead>
<tr>
<th>Author</th>
<th>Title of Article</th>
<th>Periodical/ website</th>
<th>Vol. / No. / Edition</th>
<th>Year published</th>
<th>Pages</th>
<th>Date accessed</th>
<th>Location, data base, website, link</th>
</tr>
</thead>
</table>

**Annotation #11**

This article used a small bank with $580 million in assets as an example. It has been using a manual method of ML detection system. The bank is in compliance with statutory regulations. There are a handful of banks using the manual approach or an approach with assistance from home-grown software. However, with increase in transaction volume, even the small banks cannot handle it. In addition, these banks have been constantly assessed high in risk. One thing stopping them from a full implementation of an automatic AML program is the budget. Software packaged, staff hired for maintenance and personnel for processing, all of these resources requires a place on the budget that has been tight in recent years. When many of these smaller banks shopping for AML programs, cost is the most important factor.
<table>
<thead>
<tr>
<th>Author</th>
<th>Title of Article</th>
<th>Periodical/ website</th>
<th>Vol. / No. / Edition</th>
<th>Year published</th>
<th>Pages</th>
<th>Date accessed</th>
<th>Location, data base, website, link</th>
</tr>
</thead>
<tbody>
<tr>
<td>N/A</td>
<td>Anti-Money Laundering Solutions</td>
<td>NICE Actimize</td>
<td>N/A</td>
<td>2011</td>
<td>N/A</td>
<td>June 5, 2011</td>
<td>actimize.com</td>
</tr>
</tbody>
</table>

**Annotation #12**

Description of an anti-money laundering solution on NICE Actimize’s site. The software is used by large corporations such as HSBC, MasterCard, Citi, Barclays, UBS, Societe Generale, DBS

Features includes:

- Suspicious Activity Monitoring
- Watch List Filtering
- Customer Due Diligence

Main benefit of this solution is to meet compliance standards and reduce liabilities related to money laundering activities through the customer’s business.

<table>
<thead>
<tr>
<th>Author</th>
<th>Title of Article</th>
<th>Periodical/ website</th>
<th>Vol. / No. / Edition</th>
<th>Year published</th>
<th>Pages</th>
<th>Date accessed</th>
<th>Location, data base, website, link</th>
</tr>
</thead>
<tbody>
<tr>
<td>N/A</td>
<td>Renaissance Capital Implements Actimize Anti-Money Laundering and Market Abuse Solutions</td>
<td>NICE Actimize</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>June 9, 2011</td>
<td>actimize.com</td>
</tr>
</tbody>
</table>

**Annotation #13**

A case study on the implementation process of NICE Actimize solution at Renaissance Capital, a global financial service firm. It is an example of how the solution works across different regions with different compliance standards. Actimize claims that after the implementation, “Renaissance Capital is now seen as leading the way with comprehensive compliance management programs in emerging markets.”
<table>
<thead>
<tr>
<th>Author</th>
<th>Title of Article</th>
<th>Periodical/ website</th>
<th>Vol. / No. / Edition</th>
<th>Year published</th>
<th>Pages</th>
<th>Date accessed</th>
<th>Location, data base, website, link</th>
</tr>
</thead>
</table>

**Annotation #14**

Due to the increase in online transactions, the Danish bank has deployed a full suite of Actimize AML software to meet compliance standard. The bank is currently looking into acquiring E*Trade’s Nordic operations. This would mean increase in customer account which lead to a dramatic increase in the amount of data needs to be analysed for AML purposes. Saxo Bank chooses Actimize because “NICE Actimize has a wealth of expertise in the capital markets industry.”

<table>
<thead>
<tr>
<th>Author</th>
<th>Title of Article</th>
<th>Periodical/ website</th>
<th>Vol. / No. / Edition</th>
<th>Year published</th>
<th>Pages</th>
<th>Date accessed</th>
<th>Location, data base, website, link</th>
</tr>
</thead>
<tbody>
<tr>
<td>N/A</td>
<td>Reducing the cost of AML compliance</td>
<td>SAS</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>June 9, 2011</td>
<td>sas.com LINK</td>
</tr>
</tbody>
</table>

**Annotation #15**

Whitepaper on SAS’s AML solution. The solution is a joint venture between SAS and Teradata. The white paper described features of the solution. Most of the modules are common to AML software. However, SAS has designed the system to keep as much data in the back office as possible. Users would only see a refined report. This report is generated from a scenario filtering system. An alert will need pass through different scenario tests and only the ones that passes through all the scenarios would be flagged to the user. Also, SAS has a strong emphasis on data management and monitoring. SAS and Teradata are trying to reduce human interaction with AML software. SAS claims that its state of the art workflow management process will reduce the cost of compliance and increase efficiency.