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March 27, 2018

The Honourable Wayne Easter, P.C., M.P.
Chair, House of Commons Standing Committee on Finance
Sixth Floor, 131 Queen Street
House of Commons
Ottawa ON K1A 0A6

Dear Mr. Easter:

Re: Statutory Review of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*

The Investment Industry Association of Canada (IIAC) appreciates the opportunity to testify before the House of Commons Standing Committee on Finance and contribute to the Committee's five-year statutory review of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (PCMLTFA).

The IIAC is the national association representing 123 investment dealer firms on securities regulation, public policy and industry issues. We work to promote efficient, fair and competitive capital markets in Canada. Robust and effective regimes to combat money laundering and terrorist financing are essential to protect Canadians, the integrity of capital markets, and the global financial system.

Investment dealers have important obligations as reporting entities under the PCMLTFA and its Regulations. Our members follow an extensive and onerous process to verify client identity to ensure they do not present unacceptable financial crime risk. They are also required to have in place real time risk mitigation measures to prevent suspicious transactions, and due diligence processes when dealing with a politically exposed person (PEP). They keep detailed records and submit mandatory reports to the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), and are subject to an audit process by FINTRAC and other regulatory authorities.

The investment industry's perspective is framed through the Finance Canada consultation paper that proposes measures to improve the effectiveness of the AML/ATF legislative framework, facilitate the obligations of reporting entities, and minimize the compliance burden.

Corporate ownership transparency

G20 countries endorsed core principles to promote the transparency of corporate entities, consistent with the Financial Action Task Force (FATF) standards. The purpose of the FATF standards on transparency and beneficial ownership is to prevent the misuse of corporate entities for money laundering or terrorist financing.

We applaud the consensus reached by federal-provincial-territorial finance ministers on December 11, 2017 to improve the transparency and consistency of beneficial ownership information, and access to the information.

Although corporate information reporting requirements are in place at both federal and provincial levels, there are differences related to the collection, disclosure and access to this information. Governments need to move quickly to harmonize beneficial ownership information standards across Canada and in federal and provincial/territorial corporate law statutes. Mechanisms to improve access to this information are also critical.

A high priority should be placed on creating a central registry that contains current and accurate information with respect to beneficial ownership. The UK registry should be used as a model in this regard.¹

Finance Ministers have committed to changes that will make information on beneficial ownership available to law enforcement, tax and other authorities. This information should also be made accessible to all sectors that have reporting obligations under the AML legislation and are mandated to collect beneficial ownership information on the entities with which they do business.

A central registry would be of enormous benefit to securities dealers. At present, IIAC member firms devote significant resources to customer due diligence, including beneficial ownership research. In some cases, multiple firms conduct due diligence on the same entities. For more sophisticated corporations, institutions and trust relationships, it is a complicated and time-consuming process to work through the complexity of these structures to identify beneficial owners to complete required screening at account opening and on an ongoing basis.

The IIAC supports extending the obligations relating to the collection of beneficial ownership information to designated non-financial businesses and professions. Thorough and complete reporting of beneficial ownership is important to safeguard against money laundering and terrorist financing, as well as tax evasion and tax avoidance.

Facilitating the obligations of securities dealers and other reporting entities and minimizing the compliance burden

First, new technologies, like digital identification, have the potential to streamline due diligence processes and reduce compliance costs. The AML/ATF Regime should be sufficiently flexible to enable timely adaptation of innovative technologies, such as facial recognition.

In the context of performing identity verification, the IIAC recommends an approach that is principle-based and less prescriptive, allowing regulated entities more flexibility without regulatory constraints.

Second, FINTRAC should engage in ongoing dialogue with securities dealers and other financial sector participants to ensure greater transparency on FINTRAC requirements. For example, when reporting entities, including securities dealers, send Suspicious Transaction Reports and Suspicious Attempted Transaction Reports (STRs/SATRs) to FINTRAC, FINTRAC should provide timely feedback to reporting entities indicating which STRs and SATRs are deemed not to be suspicious. Information on the status of

¹ UK companies, Societates Europaeae (SEs), limited liability partnerships (LLPs) and eligible Scottish partnerships (ESPs) are required to identify and record the individuals who own or control their company. Companies, SEs and LLPs must keep a register of “People with Significant Control (PSC)” in relation to them and file the information with the central public register at Companies House. ESPs are not required to keep their own register, but must provide their PSC information to Companies House. The PSC register at Companies House is accessible to the public.

these transactions would provide helpful background information to reporting entities in identifying suspicious transactions, and would assist in reducing subsequent reviews for similar transactions by FINTRAC.

Third, FINTRAC could publish on its website written decisions of violations to the *Act*. This would help inform all reporting entities of the issue and help them improve their own procedures and practices to ensure similar issues are avoided in their respective organizations. For privacy purposes, such decisions can be anonymous where necessary.

Fourth, enhancing communication between FINTRAC and other regulators is important to reduce duplication and overlap in rules and procedures. For example, FINTRAC should engage in consultations with securities regulators to ensure the AML-related reporting requirements in the securities rulebooks are congruent with FINTRAC requirements.

Finally, subsection 62(2) of the *Act* provides certain exceptions from record-keeping requirements and identity verification of authorized officers, if the account is opened by a Canadian regulated financial entity, very large corporation listed on a stock exchange, or public body. However, such exceptions do not pertain to foreign regulated entities subject to a comparable regulatory regime in their home jurisdiction. For example, for entities regulated by the Financial Services Authority (FSA) in the UK or the Securities and Exchange Commission (SEC) in the U.S., Canadian dealers could verify identity by confirming and documenting the entities registration status and rely on the regulatory review by the home jurisdiction. The lack of an exemption discourages foreign institutions from dealing in the Canadian marketplace. The IIAC recommends that the legislation be amended to provide an exception from record-keeping and identity verification requirements for foreign institutions registered with securities authorities in certain jurisdictions, the U.S. and the UK, for example.

Summary of IIAC recommendations

That the federal government:

- Work with the provinces and territories to harmonize beneficial ownership information standards across Canada and in federal and provincial/territorial statutes.
- Create a central registry that contains current and accurate information with respect to beneficial ownership modelled after the publicly-accessible UK register, “People with Significant Control” at Companies House.
- Amend legislation under subsection 62(2) to provide an exception from record-keeping and identity verification requirements for foreign institutions registered with securities authorities in certain jurisdictions, namely the U.S. and the UK.
- Explore the opportunities that new financial and regulatory technologies present to mitigate risk, increase the effectiveness of AML/ATF measures, and streamline due diligence processes to reduce compliance costs for reporting entities.
- Champion more flexible, principle-based approaches to regulation to capture new and unexpected technological developments, for example, in the context of identity verification.



That FINTRAC specifically:

- Engage in ongoing dialogue with securities dealers and other financial sector participants to ensure greater transparency on FINTRAC requirements.
- Provide timely feedback to reporting entities indicating which Suspicious Transaction Reports and Suspicious Attempted Transaction Reports (STRs/SATRs) are deemed not to be suspicious.
- Publish on its website written decisions of violations to the *Act*.
- Work with other regulators to reduce duplication and overlap in rules and procedures.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'J. Mann', with a long, sweeping underline.