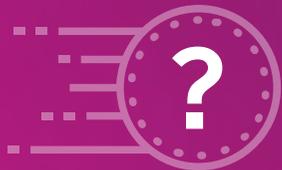




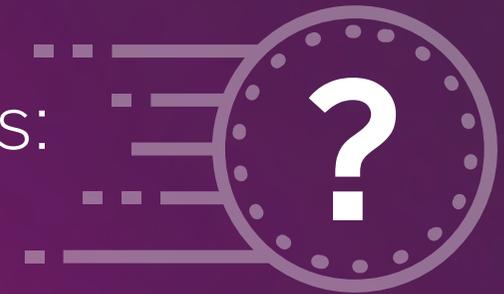
SIONIC[®]

Global financial services specialists



Real estate and crypto-currency clients:

Do you really know your customers?



How a digital approach to the five fundamentals of AML creates good business, confident compliance, and trusted client relationships

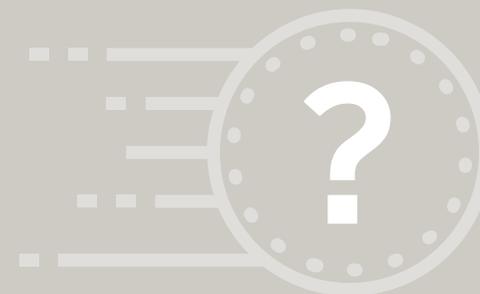


AUGUST 2021

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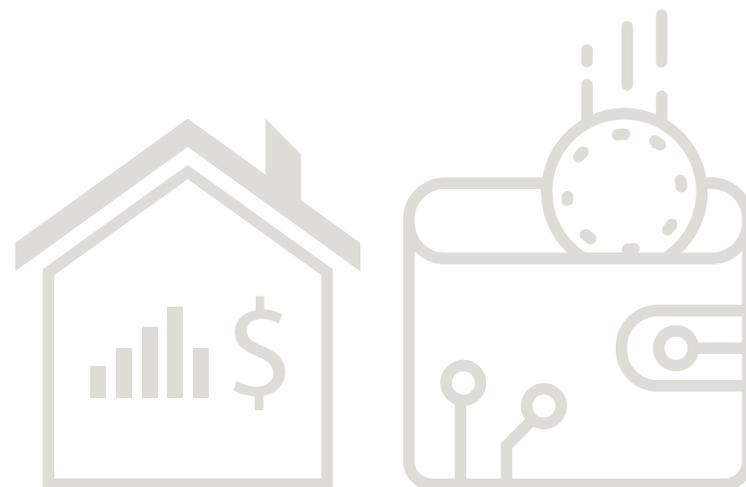
How a digital approach to the five fundamentals of AML creates good business, confident compliance, and trusted client relationships.



All firms want to do good business with good people. Unfortunately, life is rarely that simple. The responsibility to 'know your customer' is already well established in banking, and the regulators now have both **real estate** and **crypto-currency** sectors in their sights.

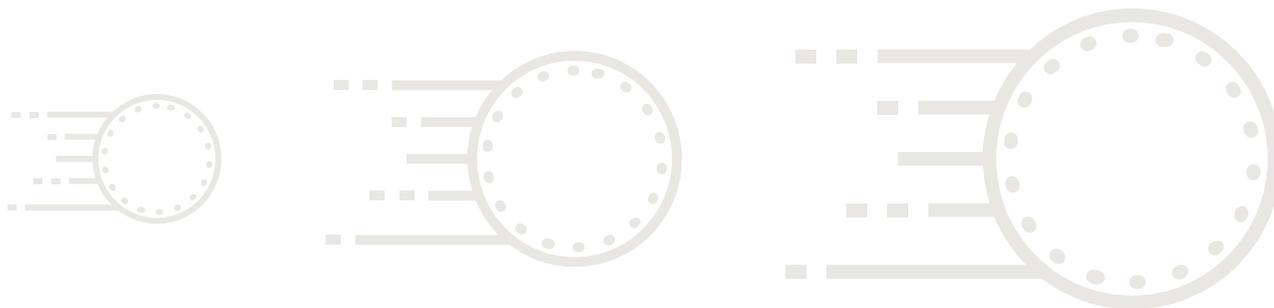
This is unsurprising. **Real estate** is multi-billion-dollar industry, acutely vulnerable to transactions that not only mask, but actively leverage, the profits of financial crime.

Crypto currency – while maturing from its 'edgy' image of the 'cool but scary' new kid on the block – is a powerful accelerating force, subject to criminal ingenuity and intense market scrutiny.



REAL ESTATE AND CRYPTO-CURRENCY CLIENTS: DO YOU REALLY KNOW YOUR CUSTOMERS?

Whether it's bricks and mortar or virtual finance, both real estate and crypto currency firms are now classed as 'reporting entities' (REs)¹, subject to the new Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) regulations. These are now in force as of June 2021 and include the requirement to understand the 'Ultimate Beneficial Owner' or 'natural person' and the risk they pose to your organization. In other words, how legitimate are your clients (and do you really know them)?



It is both a moral and regulatory requirement that all firms need to answer; they also need to have all the appropriate measures in place to ensure they are dealing with good people. While no two customers and no two firms are alike, all firms must have an effective anti-money laundering (AML) or anti-terrorism funding (ATF) program. But ensuring you have effective controls based on your firm's own particular risk appetite is a daunting, complicated – and urgent - task. And from a crime prevention perspective, understanding who your customers are, and the risk they pose to your firm and to society at large has never been more important.

"Understanding who your customers are, and the risk they pose to your firm and to society at large has never been more important."

¹ <https://www.fintrac-canafe.gc.ca/re-ed/intro-eng>

How did we get here, bearing in mind that the FINTRAC new regulations are already in force, and the regulators are set to play hard ball?

In June 2021, FINTRAC expanded its regulatory reach beyond banking and into real estate and crypto-currency. This move has a strong focus on the Know Your Customer (KYC) component of the Anti-Money Laundering (AML) and Anti-Terrorist Financing (ATF) lifecycle, with the expanded regulations now covering all RE sectors which the regulator deems vulnerable to the movement of dirty money into assets that hold a stored value.

In recognition of the complexity of these changes, FINTRAC has provided guidance to enable firms to align with the latest technology advances and evolving digital landscape, along with a phased implementation timeline:

FINTRAC Timeline²

*From June 1, 2021, to March 31, 2022, FINTRAC will assess compliance with the regulatory requirements in effect prior to June 1, 2021. During this period, FINTRAC will also review REs' most up to date **compliance program elements**. As REs must update their compliance program to reflect new regulatory requirements, this approach will provide REs with feedback to help them meet the requirements of the amended Regulations.*

*FINTRAC will begin assessing compliance with the amended Regulations on April 1, 2022. However, FINTRAC may assess transactional information for a period prior to April 1, 2022, while exercising reasonability and taking into consideration the flexible measures that FINTRAC has previously communicated in the **Notice on forthcoming regulatory amendments and flexibility**.*

² <https://www.fintrac-canafe.gc.ca/covid19/assessment-eng>

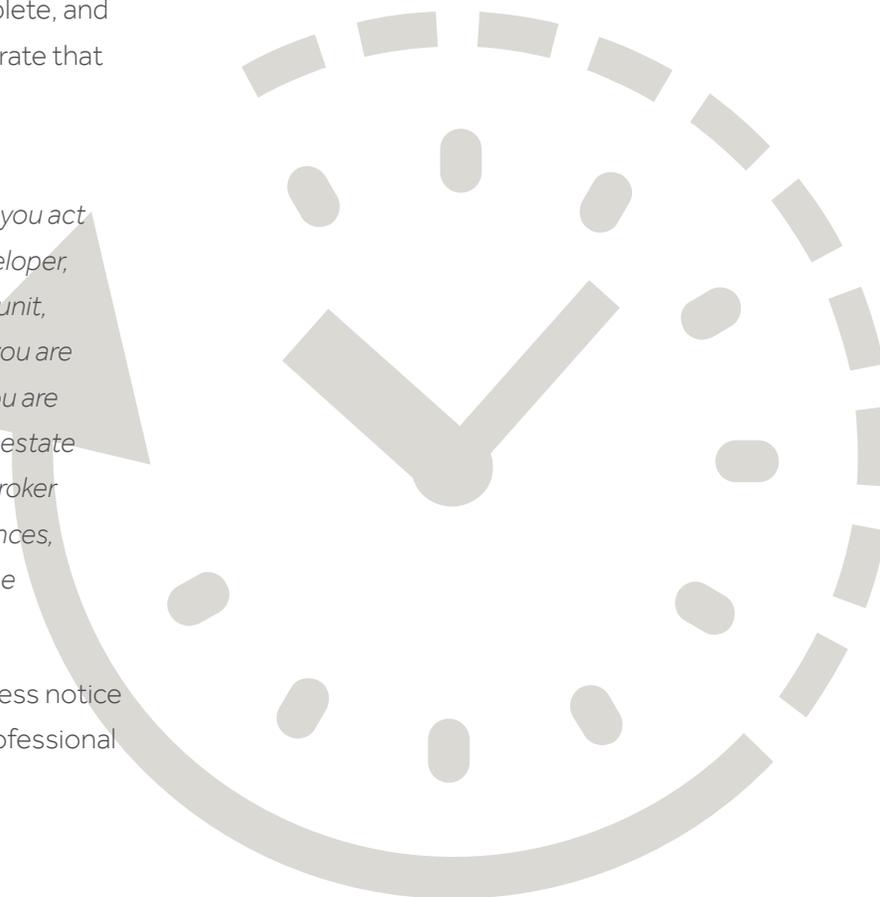
The clock is ticking – and the stakes are high

Given these changes are now already in force, firms urgently need to conduct timely, complete, and accurate customer due diligence and enhanced due diligence to comply – and to demonstrate that compliance adequately – with their new regulatory obligations.

According to FINTRAC:

"If you are a real estate broker or sales representative, you must verify client identity when you act as an agent or mandatary in the purchase or sale of real estate. If you are a real estate developer, you must verify client identity when you sell to the public a new house, new condominium unit, new commercial or industrial building, or new multi-unit residential building. In addition, if you are a real estate developer that is incorporated, you must verify the identity of clients when you are acting on your own behalf, or on behalf of a subsidiary or affiliate. In some situations, a real estate developer may be the client of a real estate broker or sales representative if they use the broker or sales representative as their agent for the purchase or sale of real estate. In these instances, the broker or sales representative must meet all the associated requirements, including the requirement to verify identity."³

But not everyone in industry is complying with a sense of urgency. This is worrying: taking less notice of FINTRAC than required puts your business at risk and risks both personal liability and professional consequences. On top of that, you may be assisting in real human harm.



³ <https://www.fintrac-canafe.gc.ca/covid19/assessment-eng>

Facing the human cost of financial crime

Criminal enterprises use real estate as a vehicle to maximize their profits and exploit vulnerable community members through modern day slavery.

The global COVID-19 pandemic has exacerbated human rights atrocities, where more than ever, vulnerable citizens are exploited and demoralized in the pursuit of financial gain. To help firms to understand the magnitude and complexity of human trafficking, the US Department of State issued the 2021 Trafficking in Persons Report to monitor and combat trafficking.⁴ And according to the Canadian Ministry of Justice:

*"Human trafficking involves the recruitment, transportation, harbouring and/or exercising control, direction, or influence over the movements of a person to exploit that person, typically through sexual exploitation or forced labour. It is often described as a modern form of slavery. Victims suffer physical or emotional abuse and often live and work in horrific conditions. They may also face fatal consequences if they attempt to escape. This crime represents a consistent and pervasive assault on the fundamental human rights of its victims."*⁵



⁴ <https://www.state.gov/reports/2021-trafficking-in-persons-report/>

⁵ <https://www.justice.gc.ca/eng/cj-jp/tp/what-quoi.html>

REAL ESTATE AND CRYPTO-CURRENCY CLIENTS: DO YOU REALLY KNOW YOUR CUSTOMERS?

If this problem feels overwhelming and remote, think again. Despite what many may think, Canada is a haven for actors in human trafficking and this issue is hyperlocal, as **this video**⁶ from Peel Regional Police describing trafficking in my own local community near Toronto makes all too clear.



"This is a crime that hides in plain sight. Many cases of human trafficking go unreported"

This is a crime that hides in plain sight. Many cases of human trafficking go unreported, and survivors suffer in shame, silence, and fear from their attackers. They also suffer from mistrust in the judicial system. Those at the greatest risk are marginalized groups, such as Indigenous women and girls; newcomers; LGBTQ2+ persons; persons with disabilities; and those individuals who are socially or economically disadvantaged. Not us? Not so. With the rise in social media, COVID-19 isolation and increased cybercrime, any person may fall prey to a predator given the right set of circumstances.

⁶ <https://www.youtube.com/watch?v=qlFjynbOhGw>

So far so negative. What's the good news?

As experts in financial crime and compliance, Sionic understands what firms need to do to comply with regulation; and we understand why regulations matter. We see it as our collective responsibility to protect our communities in the financial services sector both as individuals and as financial crime professionals. This means continually strengthening controls to detect, deter and prevent criminal proceeds from entering our financial system. And we believe the FINTRAC framework provides an accelerated opportunity for firms to do good business.

Firms that have an effective AML/ATF program instil confidence with all stakeholders that they are doing good business with the right people, in the right way.

This is a process that needs to be well executed – and that means being well documented and understood throughout your firm. It also needs to be supported by the people, process, and technology that will enable reporting to FINTRAC as soon as there are reasonable grounds to suspect the commission or attempted commission of a money laundering (ML) or terrorist financing (TF) offence. **This is an illustration of what a robust AML/ATF lifecycle typically looks like:**



How to protect yourself, your firm, and your neighbours: the five fundamentals of effective AML/ATF

To protect yourself and your firm from regulatory failure and your neighbours from real human harm, you need an effective AML/ATF program with these **five critical components**⁷:

1. Risk assessment

Do you understand your business risk?

Have you developed and implemented mitigation measures to address higher risk activities across your organization?

2. KYC (CDD, EDD)

Have you implemented measures to identify and verify the identity of persons/entities (natural persons/beneficial owners) based on risk exposure, regulatory expectation and industry practice?

3. Monitoring

Do you continually monitor customers, accounts, transactions to reassess the ML/TF risk and apply mitigation strategies based on risk exposure and business risk tolerance?

4. Reporting

Are you documenting unusual and reporting suspicious activity reports to regulator for suspicious transactions, terrorist property, large cash transactions, electronic fund transfers and large virtual currency transactions as outlined in PCMLTFA⁸?

5. Record keeping

Do you maintain business records to meet PCMLTFA and regulatory requests in a timely, complete and accurate manner? Have you completed a 2-year effectiveness review?

⁷ <https://www.fintrac-canafe.gc.ca/guidance-directives/compliance-conformite/Guide4/4-eng>

⁸ <https://laws-lois.justice.gc.ca/eng/acts/p-24.501/>

Complying with regulation is protection – and technology is key

At Sionic, we take a pragmatic, proven approach to helping our customers solve financial crime and compliance challenges. We do this by working with strategic technical partners to bring timely market solutions to life. One partner with a proven KYC solution is Monivation⁹. Monivation technology digitizes the customer on-boarding process to collect and verify all aspects of a customer identity while understanding the customer risk.

The Digital Compliance Officer provides a simple, accurate and compliant way to onboard clients at the right time, supported by the proper risk mitigating controls. The technology leverages trusted third-party database sources that are seamlessly integrated with the firm's existing customer lifecycle process. This enables Sionic to provide localized regulatory knowledge and to deliver a cost-effective, efficient solution.

WHAT YOU GET WITH THE **DIGITAL COMPLIANCE OFFICER (DCO)**

MONIVATION has developed a single solution which combines and streamlines a business's Regulatory and Compliance policies, processes and data, whilst performing real-time due diligence and producing a consolidated due diligence report in less than 5 minutes.



REMOTE BIOMETRIC ONBOARDING AND VERIFICATION APP



DUE DILIGENCE REPORT ALIGNED TO RMCP



AUTOMATIC DASHBOARD RISK REPORTING



AUTHENTIC & TRUSTED DATA SOURCES



GLOBAL COVERAGE WITH LOCAL COMPLIANCE KNOWLEDGE



AUTOMATED WORKFLOW



INTEGRATION SERVICES



THEMATIC ALGORITHMS



PLUG-AND-PLAY ARCHITECTURE



⁹ <https://www.monivation.co.za/dco/>

How does it work in practice?

Throughout the real estate customer lifecycle, Sionic uses the Monivation tool to help firms leverage trusted digital sources to conduct due diligence. At the start of the customer interaction, simplified due diligence provides a yes/no decision to proceed. This means you can quickly determine if the customer should continue in the real estate journey, based on their exhibited individual risk factors – including whether the customer is a 'Politically Exposed Person', has negative news or third party associated risk. As the customer moves through the real estate sales journey, you can continuously assess your firm's risk exposure and apply timely risk mitigation measures. If you find reasonable grounds to suspect an ML/TF offence, you are obligated to report as soon as reasonably practical, supported by a documented audit trail. Our approach means that as a reporting entity, you can be confident that you are meeting your regulatory obligations while also safeguarding the Canadian financial system.



Conclusion

In summary, an effective AML / ATF program that leverages the best of regulatory technology ensures you can protect yourself and your firm with fit for purpose compliance: a win/win that protects you from reputational and financial risk - and protects some of the most vulnerable people in our community from actual human harm.

Where can I find out more?

To find out more about how **Sionic** can help you to comply with **FINTRAC** or any other aspect of financial regulation swiftly and effectively, please get in touch. You are warmly invited to spend an hour with the specialists at our forthcoming free webinar on Real Estate, Reg Tech & AML: September 15th 2021 at 12 noon Eastern Daylight time. Alternatively, please contact lead author Tara Rodgers and our specialists in Financial Crime & Compliance direct. You can find full details about this event and read more about our specialists and how to contact us overleaf.

Real Estate, Reg Tech & AML – an hour with the specialists

Accelerate your KYC with digital-enabled compliance

AML expert Tara Rodgers in conversation with regtech entrepreneur
David Harrowsmith



Tara Rodgers
Director, Sionic



David Harrowsmith
CEO Monivation

Join Sionic Director and **anti-money laundering** specialist **Tara Rodgers** and **Monivation** CEO **David Harrowsmith** for this one hour webinar. Find out how to accelerate your 'know your client' (KYC) procedures, with digital-enabled compliance that enables you to:

- localize your exact regulatory requirements
- digitize, integrate, and accelerate your existing processes
- comply with confidence, building client relationships you know you can trust

12 noon – 1pm Eastern Daylight Time
September 15th, 2021

Zoom-enabled webinar

This is a practical session for all those charged with any aspect of AML, ATF or KYC duties in Canadian real estate, or working in the crypto-currency space. In an interactive power-hour, our speakers will explore the topics covered in this whitepaper in more depth and host a Q&A advice session for participants.

Meet the experts



Sionic offers a unique blend of subject matter expertise, senior industry experience and specialism in transformation and change with a commitment to deliver measurable value. We are straight-forward, adaptable and outcomes-focused. We build affinity, work with integrity and we always do what is right for our clients.

Our financial crime and compliance experts provide advisory and implementation services to the world's largest banks and a range of financial institutions. We specialise in market abuse, anti-money laundering, anti-terrorism financing, GRC and fraud. We focus on model validation, remediation, look-backs, system tuning, risk assessments, regulatory obligations libraries and controls, and system implementation. We deliver solutions tailored to address specific client challenges, leveraging our consultants' considerable in-house industry experience and detailed technical experience, and understanding of specific technologies.



Tara Rodgers
Director, Sionic

I am a financial crime specialist with over 20 years' experience in leading financial institutions in program design, operational effectiveness, transformation, and implementation of key controls across multiple business lines and geographies. I am committed to improving the customer journey through effective operational design, process improvement and automation. I hold a BComm and MBA from Dalhousie University, Certified Anti-Money Laundering Specialist from ACAMS, Canadian Securities Certification and a Financial Planner designation from the Institute of Canadian Bankers. I am dedicated to helping our communities most vulnerable and a passionate advocate to protect our financial system.



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