

Combating Money Laundering in BC Real Estate


Expert Panel, Professor Maureen Maloney, Chair,
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The Panel's Process

- We met with many federal and provincial regulators, law enforcement, Industry Groups and Self Regulatory Organisations, (outlined in Appendix C of the report)
- Had an open portal for comments from the public (we received 213 submissions through this and more through email and letters)
- 200 questions on a questionnaire sent to many pivotal organisations like the Federal and Provincial Ministries of Finance

4 main themes

- Money laundering is a serious and contagious issue which needs to be addressed on an urgent basis not only in BC but Canada wide both federally and provincially.
- We have made the best estimate of the inestimable problem of ML in Canada, BC and other regions of Canada, and finally in the BC real estate market. There are however, many cautions and caveats to these estimates.

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- 3. Criminal Prosecution needs to be improved but other measures need to be taken. “Electric Light is the most efficient police officer, sunlight the best of disinfectants” Justice Brandeis
 - 4. Improve the set of tools available to all AML agencies, federal and provincial

Why ML Matters:

- The easier it is to ML, the more criminals will locate in our province
- The Drug Problem accelerates and we have more addictions and deaths
- More organised crime, more corruption
- Distorts the economy as legitimate business cannot compete with tax evading criminals.
- Undermines rule of law, trusted professions and institutions,
- Housing affordability increased
- Distorts BC and Canada's international reputation

Estimating the Inestimable

- Using an economic and mathematical model (*the gravity model*, outlined in detail in Appendix G of our report) to estimate the extent of Money Laundering in Canada and BC in 2018:
- *For Canada*, we estimate in 2018 \$47 Billion
- *For BC*, \$ 7.4 Billion
- *For Real Estate*, 5.3 billion (about 5% increase in prices) (details of methodology used detailed in Chapter 4)

How Did the Panel Estimate the Extent of ML?

Unger's Gravity Model - Appendix G

- Used primarily for country AML estimates. Appendix G Includes:
- Crime Statistics (for drugs, corruption, theft and fraud)
- GDP (as higher GDP makes it easier to hide money)
- Cultural Distance (migrants from the area, language, religion, customs)
- Attractiveness (Geographically, low corruption, rule of law)
- Estimating inflows and outflows across border using e.g. STRs from FI

On the lower scale of IMF Estimates of ML

- Rule of thumb of between 2 and 5 per cent of GDP
- For Canada would be between 42.7 billion and 106.88 billion
- For BC this would be 5.6 B and 14.1 B in 2017

Why is Real Estate So Attractive to MLs?

Why is Real Estate so Attractive to MLs?

- Large and Diffuse Market with high value assets
- Easy to enter, no expertise required
- Real estate is a secure investment
- Certainty of legal ownership but many ways to hide beneficial
- Can generate profit from speculation, from rents or renos
- Can be a prestigious investment
- May be needed to pursue criminal activities

How to spot potential Money Laundering

Red Flag Indicators from FATF and Unger et al

- Red Flag Analysis of individual properties reveals *inter alia*:
- Potential problematic areas including:
 - Ownership (Company or Trust, nominee owners, occupations)
 - Financing of property (no mortgage or unregulated lender)
 - Excessive Price for Property
 - Buying several properties, flipping properties often
- *NB. All of these indicia may also be completely legitimate*

Red Flag Analysis from FATF & Unger

- Red flag analysis reveals the need for better data collection and sharing
- Cross over data and better qualitative and quantitative ability to analyse the data for systemic and/or emerging trends and patterns
- Panel Recommends setting up a Financial Intelligence/ Investigative Unit with adequate and improved data banks

Criminal Prosecution needs improving but regulatory reform also important tools

- LOTA (Single most important measure for transparency)
- Create a Beneficial Ownership Registry for Companies
- Regulate all Money Services Businesses
- Give all financial and real estate regulators an Anti-Money Laundering mandate

Consider the introduction of Unexplained Wealth Orders

Recent LOTA is best practice

- Government of BC and Minister of Finance to be congratulated on introducing this ground-breaking legislation
- One of the most important amendments that can be made in this area.
- Will be used as a model the world over.

Panel Made 29 Recommendations

Focus on Five Main Areas

- Improving regulatory oversight in BC and Federally
- Federal Anti-Money Laundering Legislation (PCMLTFA) and FINTRAC
- Improved Data sharing and analysis with the creation of a Financial Investigation/Intelligence Unit to develop best data collection, sharing and analysis
- Investigation and Collaboration
- Involvement of other Provinces

Final Message

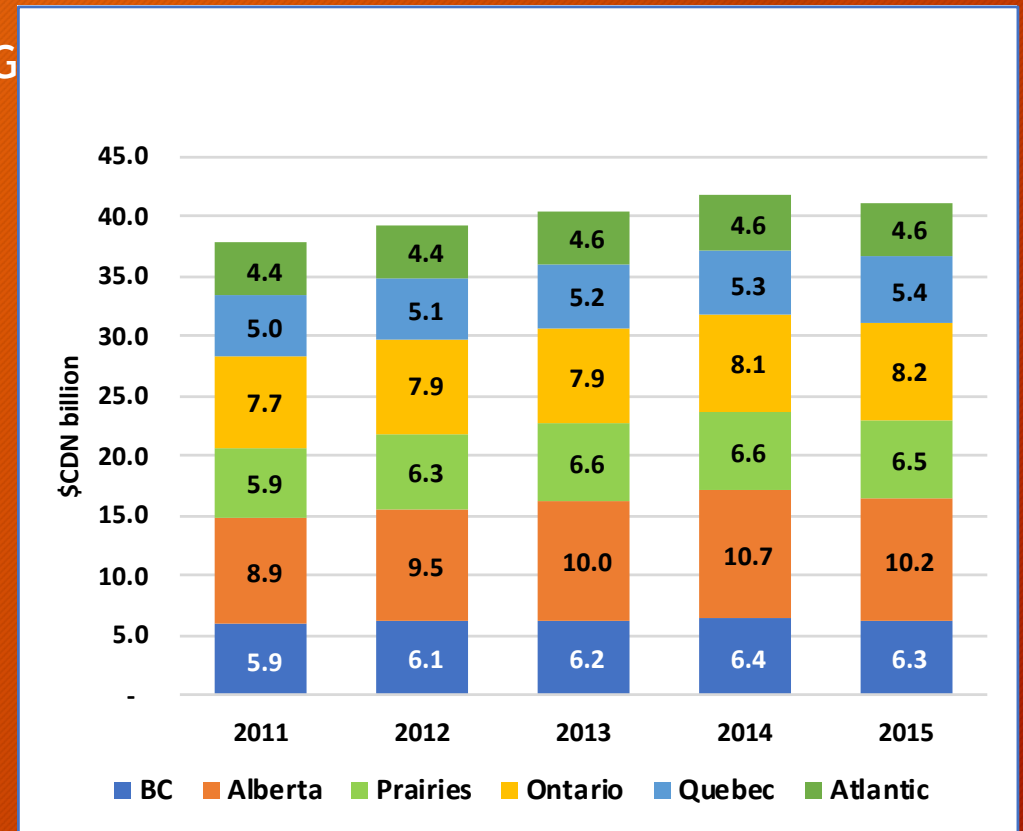
ML is a Canada Wide Issue not simply BC

- Thanks to very good reporting, ML is rightly an important and pressing public policy issue in BC
- However our estimates of ML in six regions of Canada in Appendix G at p.126 clearly shows that it affects all provinces not just those with unaffordable housing.
- This means that the Federal Government and Provinces need to work together if we are to make headway on this pressing issue

ML Estimates for Canada for 2011 -2015

- ML in Canada estimated to be \$46.7 billion in 2018 based in 2.1% of GDP
- ML in BC estimated to be \$7.4 billion in 2018 (2.5% of GDP)
- BC 4th after Alta., Ont. and Prairies but likely BC , Ont. and Que. are underestimated
- Regardless, this is a national problem that will flow to the jurisdiction that does the least

• Fig. G



Thank you for your interest and I welcome
questions