



***Off and On-Site Inspection  
Techniques:  
Canada's Experience***

**SEACEN / World Bank  
Regional Advanced Workshop for  
Banking Supervisors on AML/CFT  
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OSFI  
BSIF

**Canada**

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- **Background on Canada and the financial sector**
- **Brief overview of the AML/CFT framework**
- **OSFI and our AML/CFT supervisory assessment program**



# Canada



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# Canadian AML Legislation

- Proceeds of Crime (Money Laundering) Terrorist Financing Act (PCMLTFA)
- Applies to banks, other deposit takers, life insurers, securities dealers, mutual funds, and money services businesses
- Customer Identification rules
- Transaction Reporting
- Compliance Officer
- Policies & Procedures
- Employee Training
- Record Keeping requirements



# Canadian CFT Legislation

- PCMLTFA –
  - terrorist property reporting
- United Nations Al-Qaida and Taliban Regulations (UNAQTR)
- Regulations Implementing the United Nations Resolutions on the Suppression of Terrorism (RIUNRST)
- Criminal Code
- FRFIs must establish process to search customer records on a “continuing basis” against listed terrorist names



# FINTRAC: Canada's FIU

- **Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) is responsible for AML legislation**
- **MOU with OSFI, provincial regulators**
- **Specific legislation enables information exchange**



# Summary of FIs' Reporting Obligations

- **To FINTRAC:**
  - Suspicious Transaction Reports
  - Large Cash Transactions Reports (\$10,000 or more)
  - International Electronic Funds Transfer Reports (\$10,000 or more)
  - Terrorist Property Reports



# Summary of FIs' Reporting Obligations (contd.)

- **To OSFI**
  - Monthly summary of frozen terrorist funds
  - “Nil” reports required
- **To Royal Canadian Mounted Police and the Canadian Security Intelligence Service**
  - Details of frozen accounts





# OSFI – Who we are

- **Office of the Superintendent of Financial Institutions**
- **We supervise and regulate all banks, all federally incorporated trust and loan companies, insurance companies, cooperative credit associations, fraternal benefit societies and private pension plans.**
- **OSFI works with key partners providing a network of financial regulation and supervision, and a system of depositor and policyholder protection.**
- **Offices in Ottawa, Toronto, Montreal, Vancouver**



# OSFI Governance

- **OSFI is headed by a Superintendent, appointed by the Minister of Finance with the consent of Cabinet for a 7 year term.**
- **Superintendent is operationally independent of the Ministry, but is accountable to the Minister**
- **[www.osfi-bsif.gc.ca](http://www.osfi-bsif.gc.ca)**



# OSFI's Federal Financial Institutions Legislation

- **Bank Act (71)**
- **Insurance Companies Act (305)**
- **Trust and Loan Companies Act (69)**
- **Cooperative Credit Associations Act (8)**
  
- **OSFI is the prudential regulator for all entities incorporated under or authorized by these Acts.**



# OSFI's portfolio of financial institutions subject to AML/CFT requirements

Type of Federally Regulated Financial Institution	No. of federal institutions FRFIs	Total Assets (\$000) Q3 2006	%
Six largest Conglomerate Domestic banks and affiliates	9	\$1,990,039,189	69.4
All other Domestic Banks	13	\$37,044,174	1.3
Subsidiaries of Foreign Banks	21	\$120,204,087	4.2
Branches of Authorized Foreign Banks	24	\$48,262,271	1.7
Trust and Loan Companies	30	\$16,852,035	0.6
Trust and Loan Companies subsidiaries of Canadian banks	20	\$212,553,043	7.4
Cooperative Credit Associations	7	\$11,889,712	0.4
Cooperative Retail Associations	1	\$ 3,236,524	0.1
Three largest Conglomerate Domestic Life Insurance Companies and their affiliates	9	\$365,692,000	12.8
All other domestic Life Insurance Companies	30	\$ 45,506,966	1.6
Branches of Authorized Foreign Life Insurance Companies	41	\$ 16,291,088	0.5
<b>Total</b>	<b>215</b>	<b>\$ 2,866,584,842</b>	<b>100</b>



# Provincial supervision

- **13 provs/territories**
- **Prudential supervision of about 1,100 credit unions**
- **Federal FIs (except banks) supervised for market conduct by provs/territories**
- **Securities dealers/investment houses: no federal supervision except if subsidiary of a bank or federal FI**



# OSFI – Goals of our AML/CFT Program

- **Assess institutions' ability to identify the inherent risk of ML and TF in their operations (Basel core principles)**
- **Assess institutions' risk management controls to detect and deter ML and TF**
- **Assess institutions' policies and procedures to comply with AML legislation**
- **Assess institutions' understanding of how ML and TF impacts reputation of financial sector**



# OSFI is a reliance-based supervisor

- **We expect our FIs to have adequate systems in place to manage their compliance obligations**
- **This includes their governing legislation, AML legislation, and any other legislation to which they or their subs/affiliates may be subject**
- **These systems are subject to review when we are on site.**



# OSFI'S AML/ATF Risk Management Control expectations

- **Enterprise-wide system of AML controls**
- **Chief AML Officer in place with appropriate mandate and resources**
- **Self Assessments- annual**
- **Account opening, documentation and monitoring policies aligned to legislative requirements and guidance**
- **/contd.**





# OSFI'S AML/ATF Control expectations (contd.)

- **Outsourced functions: FRFI retains accountability**
- **Adequate systems & technology to support transaction reporting to FINTRAC**
- **Appropriate AML Training**
- **Internal Audit reviews for effectiveness**
- **Effective process to search for terrorist names**



# Methodology: Planning on/off site work program

- **Prioritizing institutions**
- **Understand FIs' operations**
- **Determine scope of review**
- **Plan the assessment**
  - On site work
  - Questionnaire – “desk review”
- **Document and report the findings**



# Prioritizing Institutions for assessment

**Risk based approach used to prioritize FIs that will be assessed, using these criteria:**

- **Size of retail banking operations**
- **Extent of OFC operations**
- **Customers' countries/jurisdictions**
- **Size of correspondent book**
- **Known AML/Compliance issues, or Compliance function rated NI by Supervisor**
- **Discussions with FINTRAC**



# Understand the FI's operations

- **Key business activities, esp. those that may present higher ML or TF risk**
  - Known higher risk customers
  - Operations in higher risk countries
  - Higher risk products (e.g. SWIFT, certain investment products,
- **Discuss FI with the OSFI Relationship Manager in Supervision**
- **Review existing supervisory analysis (focus on strength of Risk Management Control Functions)**
- **Review material provided by FINTRAC (statistics on reporting, any known compliance issues, usefulness of reports, etc.)**



# Determine scope of the assessment

- **Identify specific business lines to assess**
  - E.g. Retail deposit accounts, mortgages and other loans, private banking, correspondent banking, investment banking, off shore operations, etc.
- **Review FI's self assessment for identified weaknesses**
- **Review FI's internal audit reports**
- **Review IT systems that support identification of suspicious and other reportable transactions**



# Plan the Assessment

- **On site:**
  - FI provides an overview of AML/CFT regime, systems, policies, procedures
  - Meet with heads of business lines
  - Meet with Chief AML/CFT officer
  - Meet with Chief Internal Auditor
  - Select customer files for review (focussed on customer ID and DD, not transactions)
  - Large FIs: 3 weeks. Smaller FIs: 1 week.
- **Off site:**
  - Consider use of questionnaire to obtain info (mostly used for smaller FIs)
  - Pre-study of all material (policies, procedures) provided in advance
  - Internal evaluation of information gathered
  - Preparation for exit meeting



# Communicating Results

- **Exit meeting - a verbal summary of findings and proposed recommendations**
- **Supervisory letter with recommendations**
- **All written reports shared with FINTRAC**
- **FI response also shared with FINTRAC**



# AML/CFT assessments to date

- **78 Assessments and Projects since 2002...**
- **...consisting of 676 specific interventions**
  - 313 in 2005, 91 in 2006
- **Of the 676 interventions:**
  - 247 required action on compliance issues
  - 429 recommended action to strengthen risk management controls
- **99% of federally regulated sector covered by assessments and projects (measured by balance sheet assets)**





# OSFI's supervisory tools

- **OSFI uses a number of supervisory tools to change undesirable management behaviour:**
- **Guidance (prepared with industry input)**
- **Interventions & Staging**
- **Directions of Compliance**
- **Prudential Agreements**
- **Administrative Monetary Penalties**
- **Restrictions on business operations**
- **Removal of director(s), officer(s)**
- **Legal Action**

