# Governance Strategies and Philosophies for Combating Real Estate Money Laundering In Canada

**Shawn R[1] and Na J[2]\***

[1]SJD Candidate of Law School, Beijing Normal University, China
[2]Law Professor, Beijing Normal University, China

**\*Corresponding author:** Jiang Na, Law Professor, Beijing Normal University, China, Email: na.jiang@bnu.edu.cn

## Abstract

In the realm of international criminal activities, public political figures (PEPs) frequently exploit the real estate market for money laundering purposes. The simplicity of this practice, coupled with substantial capital flows and stable returns, attracts criminal proceeds to Canada and other Western countries. Implementing anti-money laundering (AML) legislation and adhering to the recommendations of the Financial Action Task Force (FATF) have become pivotal in refining domestic AML systems and safeguarding international reputation. Studies of anti-money laundering directives from Europe, America, and the FATF, along with Canada's recent initiative in Vancouver to enhance transparency in land ownership, reveal that uncovering the identities of landowners and bolstering information sharing about high-risk clients are effective measures to prevent the infiltration of criminal funds into the real estate market. The application of this concept necessitates the establishment of a risk identification and management system based on big data as particularly essential.

**Keywords:** Real Estate Money Laundering; Anti-Money Laundering; Peps; Beneficial Ownership

**Abbreviations**: PEPs: Public Political Figures; AML: Anti-Money Laundering; FATF: Financial Action Task Force; FINTRAC: Financial Transactions and Reports Analysis Centre of Canada;

## Introduction

### The Phenomenon of Real Estate Money Laundering in Vancouver and its Negative Impact

Canada plays a significant role in international money laundering, primarily as a destination for the inflow of funds. Especially in recent decades, illicit funds from developing countries have been channeled into Canada through various means. John Langdale of Macquarie University in Australia specifically refers to this money laundering phenomenon as the "Vancouver model" [1]. The introduction of the "Vancouver model" also highlights that a significant portion of criminal proceeds come from Politically Exposed Persons (PEPs), which are often derived from the finances of other countries or ordinary residents.

**The Placement of Criminal Proceeds as an "Advantage" in Canadian Real Estate:** From an industry perspective, real estate money laundering allows for a large amount of funds to be renovated all at once, enabling significant criminal proceeds to be placed through seemingly legitimate means. The real estate sector is a vast and decentralized market where substantial transactions take place daily, making the circulation of criminal proceeds within numerous real estate transactions less likely to raise suspicion. Additionally,

compared to other money laundering methods, real estate money laundering has a lower operational threshold, requiring less specialized knowledge and frequent decision-making. Moreover, as a relatively secure tangible asset, real estate itself possesses characteristics of security and stability. After a transaction is completed, the property has certainty and exclusivity in legal ownership, providing clear protection of property rights for the owner. Furthermore, real estate has a high rate of appreciation, especially in cities like Vancouver, Canada, where property prices have steadily risen over the past few decades, being less affected by currency fluctuations and economic cycles. This encourages the inflow of international criminal funds .

From a geographical perspective, Canada, as a typical developed country, has a robust legal protection system, offering more rights protection for assets transferred to Canada. This has led many Politically Exposed Persons (PEPs) to prefer fleeing to Canada, especially since some developing countries do not have extradition agreements with Canada. Alongside the escape comes a substantial transfer of funds, with a significant portion flowing into the real estate market. For money launderers who plan to reuse the funds after they arrive in Canada, real estate can be used to integrate the assets into the legitimate economy. This allows assets from Canada to be less sensitive on a global scale when needed for other purposes in the future.

Lastly, Canada's prevention and regulation of money laundering in the real estate sector are currently relatively lax. When purchasing multiple or high-value properties, buyers can hide the actual property holders behind companies, trusts, or agents, avoiding exposure of some public figures or criminal leaders. Particularly, in terms of the obligations related to large transactions and suspicious transaction reports in Canada's anti-money laundering efforts, there are not very strict requirements for reporting in the real estate sector. Industry professionals within specific non-financial sectors have fewer obligations under anti-money laundering regulations compared to financial institutions. For example, key roles in the real estate industry such as mortgage brokers and lawyers are not subject to any anti-money laundering oversight, representing vulnerable areas in the system.

**Illicit Funds Inflow Contravening Anti-Money Laundering Laws and International Conventions:** Another significant social impact of money laundering is the harm it causes to victims in upstream criminal activities. Internationally, Canada serves as a net recipient of criminal funds, with most of the laundered funds originating from abroad. Furthermore, Canada's weaknesses in combating real estate money laundering have inadvertently attracted the participation of international criminals. Over the past years, the Vancouver real estate industry has been a convergence point for criminal proceeds, with the flight of corrupt funds from other countries being a significant part of the wave of real estate purchases in Vancouver. The funds involved in money laundering crimes can be highly complex and may originate from victims, leading to reduced consumer spending and income for those victims. International dirty money is a byproduct of these potential criminal acts. From drug trafficking to human trafficking and political corruption, these crimes have caused immeasurable suffering globally, particularly in developing countries, where they limit government revenue, hinder economic growth, and worsen poverty levels and social inequality.

Legitimate funds in the financial markets prefer to invest in regions with lower risks of money laundering or other financial crimes. Therefore, the influx of illicit funds can deter legal financial investments. Another consequence of money laundering is that it facilitates criminal activities and encourages criminals to cleanse their ill-gotten gains. This enables them to spend their illicit wealth in the legitimate economy with minimal fear of being traced back to the original crime.

Consequently, the easier money laundering becomes, the greater the motivation for criminal activities. Conversely, a reduction in money laundering is accompanied by a decrease in corresponding domestic crimes. If a country tolerates money laundering to some extent, it encourages more international criminals to funnel their illicit proceeds into that country. High-income and extremely wealthy criminals, both domestic and international, not only bring their ill-gotten gains but are also likely to introduce their criminal methods, including corruption and bribery, among various illegal activities.

### Causes and Characteristics Behind Real Estate Money Laundering

In any region's financial market, legitimate funds prefer to invest in areas with lower rates of financial crime. Therefore, the influx of illicit funds causes legitimate financial investments to deliberately avoid that region, resulting in significant economic and financial order losses for the local area. Another consequence of money laundering is that it promotes criminal activity and encourages criminals to launder their ill-gotten gains, allowing them to spend their illicit wealth in the legitimate economy without fear of being traced back to their criminal activities. Therefore, the easier money laundering becomes, the greater the motivation for criminal behavior.

**Components of Real Estate Money Laundering:** The entry of criminal funds into the real estate market aims to facilitate the extraction of funds and then legitimize them.

Shawn R and Na J. Governance Strategies and Philosophies for Combating Real Estate Money Laundering In Canada. Int J Forens Sci 2024, 9(1): 000370.

Copyright© Shawn R and Na J.

What Canada's anti-money laundering departments typically observe are seemingly ordinary real estate transactions. Even when tracing the connection between property and upstream criminal activities, they may only discover that the property is owned by an investment company, behind which lies a family trust. This is because besides public political figures, other criminals, such as organized crime leaders or internationally sanctioned individuals, can also be the perpetrators of money laundering. Money launderers send funds to Canada through underground banks or using the accounts of certain trading companies, bypassing banking regulations. Often, this process involves layering the funds, making it difficult for law enforcement agencies to trace the source of the funds, and commonly, funds are distributed across multiple jurisdictions to further complicate tracking. To conceal their true ownership, criminals may use companies or trusts to obscure their identity, and even behind trusts, there may only be their agents or relatives.

Underground banks can be understood as informal remittance systems, especially in the province of British Columbia in Canada, where they thrive. They often transfer funds from countries with foreign exchange restrictions outside the regulated banking system, avoiding government oversight. In the context of the "Vancouver model," it is noted that Chinese citizens initially transfer funds to underground banks and then inform them that the required funds have arrived in Vancouver. When money launderers arrive in Vancouver, the heads of the underground banks provide an equivalent amount in Canadian dollars to the fund holders. In addition to underground banks, the process of laundering large sums of money typically requires the assistance of industry professionals. Therefore, lawyers, accountants, real estate agents, among others, involved in transactions in Canada become operators of real estate money laundering. These intermediaries influence the flow of funds under the guidance of their clients. Some are unwitting enablers, while others are aware that the funds come from criminal proceeds but are willing to help criminals conceal those earnings and protect their privacy due to financial incentives and relatively low risks. Therefore, professionals play a crucial role at every stage of money laundering.

Since real estate is also an investment product, there are continuous profits to be gained from real estate investments after transactions, such as rental income or profits from property appreciation. The taxes paid during the money laundering process also become part of the evidence of legitimizing assets. However, these profits can easily become mixed with criminal proceeds, effectively blurring the lines between legal and illegal funds. Additionally, in real estate money laundering, besides traditional purchases, there is the effect of renovating or flipping real estate properties to achieve the mobility of criminal funds, which is another way of concealing funds. Taking house renovation as an example, construction and renovation companies are involved in the process, and these subcontractors do not have anti-money laundering obligations. Consequently, whether accepting large cash payments or facing suspicious transfers, there are no penalties for the exchange of criminal funds. For instance, taxes paid in real estate leasing or renovation can easily blur the line between criminal proceeds and legal income.

**Challenges in Combating Real Estate Money Laundering:** Compared to regular money laundering, real estate money laundering often occurs at the smooth placement stage, hidden beneath layers of criminal funds. Therefore, there is a common characteristic in real estate money laundering crimes, which is that transactions in real estate money laundering are typically carried out in the most conventional manner. To further differentiate from ordinary purchases, money launderers may even complete initial transactions through methods like borrowing from others or installment payments. Unless there are direct links to upstream criminal activities, it is challenging to distinguish real estate money laundering transactions from regular real estate transactions solely at the transaction level, and they won't trigger any anti-money laundering risk alerts within the anti-money laundering system.

Because real estate money laundering crimes can be premeditated, many sophisticated money laundering methods are applied in the market. Typically, criminal funds from international sources involve multiple jurisdictions, increasing the investigative resistance for law enforcement agencies. This is precisely what criminals hope to see. Therefore, the investigation and evidence collection stages can be very complex, even in countries like the United States or Europe with more frequent judicial assistance treaties with Canada, let alone in developing countries in Asia and the Middle East, which pose even greater challenges [2]. Besides the overlay of jurisdictions, the stacking of beneficial owners has also become a factor. A bank account may be held by a company in another jurisdiction, and this company may be owned by a family trust in a third country. Each country or entity has its own anti-money laundering compliance system, making it difficult to trace the funds behind and upstream criminal activities. Particularly in Canada, real estate money laundering crimes are globally interconnected, and money launderers have ample financial resources and high business acumen to plan and coordinate, easily circumventing regulatory oversight in markets. At the same time, law enforcement agencies are not investigating criminals per se, but rather suspects or leads related to criminal suspects, significantly reducing the willingness to cooperate with investigating agencies and their own enforcement powers.

In prosecutions related to real estate money laundering, the conviction rate is very low. One reason is that criminals have already designed a complex placement path for the money laundering process, making it difficult to trace the series of funds behind real estate transactions. Another reason is that it is challenging at the legal level to link the funds in real estate to specific upstream crimes and form an evidence chain. Without rigorous evidence support, the prosecution authorities have to exclude some suspicions. In addition, Canada's Charter of Rights and Freedoms limits the time frame for criminal proceedings and the pre-trial disclosure of evidence in criminal cases, which favors criminal suspects. This legal landscape makes prosecuting a money laundering case in Canada very challenging. This also indirectly reflects that the actual number of money laundering cases may far exceed the number of criminal convictions.

## Canada's Existing Anti-Money Laundering Mechanisms and Vulnerabilities

Canada's Proceeds of Crime (Money Laundering) and Terrorist Financing Act (referred to as the "Anti-Money Laundering Act") aims to combat money laundering crimes and terrorist financing by investigating and collecting information for prosecution of relevant individuals involved in criminal activities [3]. Canada's anti-money laundering system is currently internationally recognized, but domestically, the harm caused by money laundering crimes is not as evident as violent crimes or drug-related crimes. This has led to a relative lack of effort in Canada's domestic fight against money laundering compared to other criminal activities.

**Scope of Anti-Money Laundering Regulation in Canada and Conventional Measures:** Currently, Canada's anti-money laundering efforts are primarily centered around the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), with cooperation from various departments including the police, customs, and tax authorities. Aside from its anti-terrorist financing mandate, the main responsibility of this center is to oversee compliance with anti-money laundering obligations by various reporting entities across different industries to ensure compliance with the Anti-Money Laundering Act. This includes principles such as "Know Your Customer" for risk identification, record-keeping, risk assessment, and training. Using professional electronic systems and skilled personnel, transaction information is analyzed and reports are generated to extract financial intelligence related to money laundering crimes, terrorist financing, and threats to Canadian security.
Although FINTRAC is considered a financial intelligence analysis agency for anti-money laundering, it does not have enforcement capabilities for obtaining data from financial institutions. Instead, it requires reporting entities, including

lower-tier financial institutions, to preprocess financial information and then submit it to Canadian police, national security agencies, or other law enforcement agencies. Law enforcement authorities are only authorized to request additional information from this center after obtaining a court order to ensure that appropriate privacy protections are maintained. For instance, in cases of large amounts of cash being intercepted by Canadian customs when crossing borders, Canadian customs submits the report to FINTRAC and continues to conduct background checks and investigations based on leads. When FINTRAC believes there is reasonable suspicion that the information may be related to such prosecutions, it discloses the financial intelligence to law enforcement agencies. Prosecution against suspects takes place through investigations, and charges are filed when they meet established standards.

The obligated reporting entities include: 1. Accountants, 2. Royal authorized agents, 3. Notaries in B.C., 4. Casinos, 5. Precious metal and gem dealers, 6. Financial entities, 7. Life insurance, 8. Money services businesses, 9. Real estate developers, 10. Securities dealers [4]. The principles for submitting reports can generally be categorized into five classes: 1. Large cash or wire transactions, 2. Suspicious transactions with reasonable grounds, 3. Transactions involving terrorist property, 4. Cross-border currency reporting, 5. Voluntary reports from the public [5]. If there are violations of compliance obligations, FINTRAC can issue administrative penalties to address non-compliance situations, and in cases resulting in serious consequences, criminal penalties may also be pursued. In addition to the Financial Transactions and Reports Analysis Centre of Canada, there is a complex array of federal and provincial agencies as well as private organizations, collectively forming the regulatory system for combating real estate money laundering. For example, departments responsible for national security, federal and provincial financial regulatory agencies, and real estate industry associations are among them. However, the primary objectives of these departments extend beyond anti-money laundering, or anti-money laundering tasks represent only a small portion of their activities.

## Weaknesses in Regulating Real Estate Money Laundering

**Information Integration Needs Improvement**: The core mission of Canada's anti-money laundering agency, FINTRAC, is to collect and disseminate information to facilitate money laundering investigations and disrupt terrorist financing activities. However, it also needs to consider the impact of Canada's Charter of Rights and Freedoms, Section 8, which protects individuals from unreasonable searches and seizures, as well as Canada's Privacy Act, which safeguards

Shawn R and Na J. Governance Strategies and Philosophies for Combating Real Estate Money Laundering In Canada. Int J Forens Sci 2024, 9(1): 000370.

Copyright© Shawn R and Na J.

citizens' privacy. To maintain this balance, law enforcement agencies lack a clear understanding of what actionable intelligence may be contained within FINTRAC's database. This has created a gap between Canada's anti-money laundering department and law enforcement agencies. In today's era of two-way information flow in anti-money laundering, factors such as a lack of investigative capabilities, coordination mechanisms, limited information sharing, relatively high sharing thresholds, and incomplete groups of obligated entities constrain the effectiveness of information utilization. This significantly hinders the expansion of FATF recommendations and international best practices in anti-money laundering in Canada.

**Legal Industry Remains Unregulated:** In real estate money laundering, lawyers can act as agents or brokers for buyers and sellers. However, personnel from the legal industry are not included in Canada's list of reporting entities because, in 2015, the Supreme Court of Canada ruled that FINTRAC's requirement for reporting entities to track client financial activities and report in a manner applicable to lawyers violated the Constitution. It acknowledged constitutional protection for lawyers against factors that could disrupt their relationships with clients. Essentially, this exempts legal professionals from reporting obligations to the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC). The legal industry plays a crucial role in money laundering crimes, and the 2016 FATF assessment report specifically pointed out that Canada's anti-money laundering obligations for solicitors were clearly not in line with FATF recommendations. Although some provincial law societies have established rules and practices to improve their members' anti-money laundering activities, evaluating their effectiveness remains challenging. Thus, the lack of regulation in the legal industry remains a significant loophole in Canada's anti-money laundering framework.

**Unregulated Private Lending:** In money laundering activities related to real estate, loans are often used in conjunction with anonymous property ownership. In Canada, only mortgage loans from legitimate financial entities are subject to the oversight of anti-money laundering agencies and financial institutions, ensuring that lenders undergo due diligence. However, mortgage loan operations from non-financial entities, including registered or unregistered mortgage brokers, private lenders, and mortgage investment companies, fall outside the framework of the statutory anti-money laundering system. Money launderers use real estate as collateral to obtain legitimate third-party loans for property transactions, then repay them periodically or rapidly with illicit proceeds to avoid drawing attention during high-value transactions. If the government seizes assets, it can also reduce the financial losses incurred by criminals.

**Limited Interdepartmental Coordination:** Apart from the relatively obvious weaknesses such as the prohibition of mandatory reporting of clients' suspicious transactions by lawyers and the lack of anti-money laundering oversight in private lending, other industry-related individuals within the real estate sector, such as real estate agents and appraisers, lack effective anti-money laundering compliance obligations. Although the federal government revised the Anti-Money Laundering Act in 2007, requiring real estate agents nationwide to confirm the true identities of both parties in real estate transactions when representing homebuyers, the scope and breadth of money laundering crimes are extensive, necessitating the involvement of various national departments and private organizations. Therefore, the current situation is that the entire anti-money laundering system's penetration into various departments is uneven, and many regulatory areas have the primary responsibility of protecting public interests, with anti-money laundering not being a primary task. The so-called penetration of anti-money laundering work is only triggered when industry personnel encounter it in their business processes. In industries such as real estate agents, mortgage brokers, notaries, lawyers, among others, there are significant gaps between anti-money laundering and regular oversight [6].

**Conventional Recommendations for Combating Real Estate Money Laundering in Canada:** In the United States, proxy lawyers are similarly exempt from the obligation to file anti-money laundering reports. However, lawyers are required to submit basic reports for any transactions involving over $10,000 in cash in their work, including essential information such as the individual's name and address, date, and nature of the transaction. They must also stay informed about the latest sanction lists and requirements related to Politically Exposed Persons (PEP) and incorporate these into their due diligence and client identification tasks [7]. In the European Union, in 2001, amendments were made to its 1991 anti-money laundering directive, mandating member states to legislate anti-money laundering obligations for lawyers and other non-financial professionals and require the submission of suspicious reports [8]. Thus, whether in the United States or Europe, although lawyers or legal representatives are not within the scope of obligated entities for anti-money laundering reporting, specific anti-money laundering obligations can still apply within their respective industries. Dimensions such as regional jurisdiction or industry-specific regulations can play a role in the supervision of private lending, including the disclosure of beneficial ownership or the most basic financial reporting, to prevent criminals from exploiting specific channels for money laundering.

Due to the complexity of real estate and real estate money laundering, most regulatory agencies or law

Shawn R and Na J. Governance Strategies and Philosophies for Combating Real Estate Money Laundering In Canada. Int J Forens Sci  2024, 9(1): 000370.

Copyright© Shawn R and Na J.

enforcement departments currently lack the supplementary resources and professional knowledge needed. This results in a lack of preparedness at both the investigation and prosecution stages, meaning that only a fraction of real estate money laundering crimes can be successfully dismantled. Therefore, during the investigation and prosecution process, it is imperative to establish a support system consisting of professionals with legal, financial, and accounting knowledge to gather evidence and effectively analyze data to maximize the utilization of suspicious transaction reports. If more professionals in the industry collaborate between departments, it can further optimize existing mechanisms, enhancing the level of information acquisition and sharing among operating institutions. Subsequently, through specialized training, specific requirements can be incorporated into various departments to ensure a high-quality report feedback level, making more groups value their anti-money laundering obligations, which will be a crucial step in deeply integrating the anti-money laundering concept.

Of course, the legal and regulatory requirements corresponding to different regions vary, and the public's acceptance threshold for the disclosure of personal privacy also differs. Democratic countries like Canada emphasize the protection of rights and freedoms through their charters. Even a minor lapse in privacy protection within the country is regarded as a serious matter. However, from the perspective of reducing harm to citizens of other countries and combating domestic money laundering crimes, appropriate disclosure of the beneficial ownership of companies and trusts, as well as more extensive information collection and sharing, is reasonable. Privacy protection for individuals who do not meet information sharing standards still needs to be upheld. In regions like Vancouver, where international criminal funds are concentrated, strengthening information collection and disclosure is acceptable both from a national security perspective and an ethical standpoint.

## Strengthening Anti-Money Laundering Measures in the Real Estate Sector

Politically Exposed Persons (PEPs) are defined by the FATF as individuals who hold important public positions that can be easily exploited due to the nature of their work, making them high-risk individuals [9]. Most countries around the world have signed the United Nations Convention against Corruption, which, in Article 52, stipulates that banks have a responsibility to ensure that the beneficial owners of any party involved in high-value transactions are within the scope of due diligence. This due diligence process should also include colleagues or family members of PEPs, as trusted individuals close to PEPs are often used as proxies [10]. In order to prevent PEPs from being involved in

money laundering crimes, the FATF also specifies additional due diligence requirements for financial institutions when dealing with PEPs in Recommendations 12 and 22, including the collection of information about their family members and close associates [11,12].

**Examples of International Best Practices in Anti-Money Laundering:** FATF advises in customer due diligence that contracting countries should take necessary measures under domestic laws and regulations to require financial institutions within their jurisdiction to verify customer identity, take reasonable steps to determine the beneficial ownership of high-value accounts, and conduct due diligence on important principals or agents and their family members and close associates. Four evaluation recommendations are particularly highlighted on identified risk factors: 1. When dealing with public figures, consider the importance of their positions and verify whether the source of funds is corrupt. 2. Clients from countries on sanctions lists or high-risk corrupt countries, whether the home country has an extradition agreement with the client's home country, or whether the client is on the extradition list. And whether the two countries have established close links through relatives. 3. In cases where third-party company agents are involved, trace whether the beneficial owner is a criminal. 4. Transactions involving offshore accounts or multiple jurisdictions with large cash transactions or suspicious transactions. From FATF's recommendations, it can be seen that today's more advanced risk assessment systems advocate examining customer risk from multiple perspectives, including geographical areas, third-party partners, and the flow of funds. Especially in the real estate sector, where a significant amount of corrupt funds is collected, focusing on risk factors remains a mainstream concept internationally.

Hiding the actual beneficial owners in real estate transactions is a common practice for money launderers, as the goal of money laundering is to prevent the property from being linked to specific criminal proceeds. Especially in cases involving large sums or multiple property transactions, money launderers increasingly favor methods such as using companies or trusts to easily conceal the identity of the asset owners. Therefore, increasing transparency in property ownership would be more conducive to distinguishing between legitimate assets and criminal proceeds. The introduction of a system for registering beneficial ownership of real estate has also been advocated by FATF, which defines beneficial owners as natural persons who can actually control or own the right to placement of assets. Currently, in the world, about 40 countries have established a system for registering the beneficial ownership of companies. The EU's Anti-Money Laundering Directive also requires all EU countries to establish a system for registering the beneficial ownership of companies, but countries like the United States,

Australia, and New Zealand have not attempted to do so.

In addition to the beneficial ownership registration system, the UK government has also introduced Unexplained Wealth Orders as one of the solutions. Anyone with assets worth over £50,000 has a responsibility to prove the legitimacy of the source of their wealth to avoid confiscation. Special provisions include anyone who is a public figure or has reasonable grounds to suspect that they are or have been involved in serious crimes, as well as cases where there is an apparent discrepancy between legitimate income and their tangible assets, all of which are included in the scope of management. This provides an opportunity to define some cases as criminal proceeds that cannot be linked to specific crimes or specific assets. Of course, anti-money laundering practices in a single country cannot be directly applied to Canada or any other country, as it needs to take into account different values in different regions, the level of acceptance of anti-money laundering measures by the population, and other factors. Therefore, the extent of anti-money laundering is also different. For example, Canada emphasizes the constitutional protection of rights and freedoms when it comes to lawyer issues, and the government system is divided into three levels of government: federal, provincial, and municipal.

**The New Attempt with B.C. Province's "Land Owner Transparency Act":** The mandatory disclosure of beneficial ownership of land has been a part of British Columbia's efforts to enhance the visibility of land ownership within the province. In November 2020, the B.C. government officially implemented the Land Owner Transparency Act. This legislation encompasses ordinary real estate, leases exceeding 10 years, and other types of property rights. It applies when the entity obtaining land interests is a "relevant corporation," "relevant trust," or "relevant partnership." Additionally, any individual who controls 10% or more of the shares of a relevant corporation is defined as a "corporate interest holder." Identified interest holders must provide personal information, including their name, birthdate, address, personal tax number, and nationality. Individuals who hold land registrations in their name as legal and beneficial owners do not need to submit reports. Furthermore, existing property owners who fail to submit transparency reports within the stipulated timeframe may face fines, with individuals facing penalties of up to CAD 25,000 and non-individuals up to CAD 50,000, or 15% of the property's assessed value. Basic identity information disclosed under this Act will be allowed to be publicly searched on an accessible information platform. Ordinary citizens from other countries can also use this platform to search whether specific targets, such as public political figures or members of other criminal organizations, are beneficial owners listed on the platform, further enhancing

the effectiveness of disclosing information about the true beneficiaries.

In principle, this legislation provides new possibilities for enhancing anti-money laundering measures. Traditional methods of tracing the source of funds and proving the possibility of money laundering crimes have always been limited. Law enforcement officers often have to trace funds through multiple layers across different jurisdictions and trusts, which is time-consuming. However, it's relatively easy for money launderers to add additional layers of money laundering barriers. Stricter laws and diverse sanctions may lead to even more secretive hiding of criminal proceeds and more extreme money laundering methods. Additionally, money launderers can use proxy lawyers as directors, shareholders, or trustees, and utilize legal rights protection mechanisms such as trust documents to shield themselves, making it difficult for law enforcement officers to make progress. Money laundering clues are like a mouse hole, and criminals can always dig deeper. Wealth disclosure is a frontal assault, eliminating the need to find the end of the funds.

In investigations targeting real estate money laundering, seemingly ordinary transactions can become suspicious when they are linked to the beneficial owners of the crime proceeds. Moreover, having a clear understanding of beneficial owners provides a solid data foundation for law enforcement agencies to investigate suspicious individuals. Identifying the identity of beneficial owners is the most crucial step in detecting real estate money laundering. The part of information composed of real estate beneficial ownership will provide greater clarity for the anti-money laundering system. Faced with money launderers who continuously develop more extreme and secretive money laundering methods as anti-money laundering measures tighten, the Land Owner Transparency Act also serves as a deterrent to criminal funds entering the real estate market in British Columbia. In addition to ongoing monitoring of high-risk clients' activities, preventing and mitigating the inflow of international criminal proceeds is one of the best ways to combat money laundering.

### The application and Implementation of Anti-money Laundering Concepts in Real Estate

In the complex strategy of preventing money laundering activities, the identification and monitoring of the actual controllers has become a crucial task. This is also the practical direction demonstrated by countries in Europe and America through the establishment and application of systems for collecting information on actual controllers and beneficial owners. Given this context, it is particularly important to strengthen the identification of the authenticity and legality

Shawn R and Na J. Governance Strategies and Philosophies for Combating Real Estate Money Laundering In Canada. Int J Forens Sci  2024, 9(1): 000370.

Copyright©  Shawn R and Na J.

of the identity of actual controllers and the flow of funds.

**Establishing a Comprehensive Big Data Model System:** In the specific environment of the real estate industry and its potential risks in money laundering activities, it is necessary to construct a suspicious transaction identification model targeted at the real estate sector. This model aims to effectively collect and analyze the flow of suspicious funds by setting a series of monitoring and early warning indicators. By meticulously comparing, filtering, and categorizing the collected information with monitoring data, this identification model will be integrated with existing anti-money laundering systems for large transactions and suspicious transaction funds monitoring and analysis, as well as informational network platforms (including data resources held by foreign institutions). Ultimately, this provides an effective set of tools for anti-money laundering regulatory authorities and public security agencies, enabling them to conduct tracking investigations and case-solving activities based on more accurate data and information, thereby effectively combating money laundering activities utilizing the real estate industry. In the process of constructing the anti-money laundering model, the identification and analysis of customer identity should not be limited to superficial data such as the amount, frequency, or direction of transactions. This process should delve into and comprehensively consider multidimensional information such as the customer's personal identity information, professional background, transaction purpose, performance ability, nature of the transaction, and source of funds, in order to form a comprehensive, three-dimensional customer profile, making the judgment of suspicious transactions more precise and reasonable. Based on this, information including but not limited to the customer's place of birth, workplace, professional situation, family background, and account information should contain detailed data such as the account owner's name (whether a company or an individual), owner category, identification code, account identification code, account type, account opening address, scope of business, registered capital, registration period, place of registration, beneficiary information, and account fund flow. Through comprehensive collection and analysis of this information, identifying whether the customer or beneficial owner is a politically exposed person, and capturing past transaction behaviors and records, monitoring key paths, and analyzing complete high-risk money laundering paths can effectively enhance the accuracy and effectiveness of customer access and transaction monitoring, thus providing a solid informational support base for preventing money laundering activities.

In the real estate markets of different countries, whether it involves transactions of new properties or second-hand properties, the principle of real estate registration is commonly followed. This principle ensures the accurate attribution of rights during the real estate transaction process, as real estate transaction registration centers accumulate a wealth of transaction data and information. In anti-money laundering efforts within the real estate sector, if the key information provided by real estate transaction registration centers and national agencies such as the administration for industry and commerce can be effectively utilized, thereby strengthening cross-departmental information exchange, optimizing the integration of information resources, expanding the content of information platforms, and establishing a shared platform, it would enable obligated institutions to comprehensively verify the collected data on this platform. Additionally, drawing on the concept of public searches from the "Landowner Search Platform," targeted information openness for certain institutions and groups could be implemented. For instance, establishing a national real estate transaction information platform and sharing information with citizen identity information and anti-money laundering obligated institutions.

**The Elements of Implementing a Comprehensive Anti-Money Laundering System Application**: In discussing how to comprehensively implement the aforementioned anti-money laundering tasks, it is necessary to consider the common problems faced by Canada, as mentioned above, namely, the various areas involved in real estate development and sales. Efforts from a single department often struggle to thoroughly prevent and regulate money laundering activities. This challenge suggests that measures like the "Land Ownership Transparency Act," when lacking synergistic collaboration across the entire jurisdiction, have limited effectiveness. Therefore, to effectively enhance progress in anti-money laundering, close cooperation among relevant departments is essential, including the housing construction department, real estate registration department, and tax department, among others. By integrating funds source review, real-name registration system, transparency of agency transactions, and information on the true beneficiaries of real estate transactions, establishing a public real estate information inquiry system can significantly enhance the transparency of real estate transactions, thereby strengthening the prevention capabilities against money laundering activities in the real estate sector. Furthermore, to achieve cross-departmental linkage and effective information sharing, the high-level attention and active participation of the national government are crucial. Ultimately, establishing a high-level leading institution with comprehensive inspection and management authority will also be an important step in ensuring the effective operation of the system.

In strengthening the anti-money laundering system, on the one hand, there is a demand to internally construct more intelligent databases and models, complemented by the training of professional anti-money laundering talents.

This approach can correlate transaction details, ownership, immigration status, and wealth with information on criminal assets, thereby effectively utilizing real estate beneficial ownership information and regulatory intelligence to strengthen anti-money laundering efforts. However, relying solely on internal intelligent systems and data linkage is insufficient, as money laundering activities often involve characteristics such as anonymous purchases, the concealment of upstream crimes, and the difficulty of legal prosecution. For those engaged in upstream crimes and constructing complex money laundering pathways, they are unlikely to voluntarily disclose themselves as the true beneficiaries behind the assets. Instead, money launderers may use trusted family members or close associates as beneficial owners and nominees, or even provide false nominees directly. This necessitates bidirectional connectivity throughout the entire anti-money laundering system. Implementing a publicly accessible beneficial owner registration platform can reduce anonymity and invisibility. The public registration platform needs to provide dual functions of publicly disclosing beneficial ownership information globally and providing suspicious information to authorities. It will allow informants from civil society, journalists, or anti-corruption personnel from any region worldwide to identify falsely registered beneficial owners as relatives, confidants, or business partners of upstream criminals. Informants can convey this information to anti-money laundering authorities through it, actively establishing an accurate and real-time anti-money laundering database. The bidirectional flow of information will significantly enhance the ability to investigate, prosecute, and prosecute money laundering cases. The real estate regulatory framework itself will also become more complete.

## Conclusion

As globalization deepens, criminals increasingly exploit corporate entities to conceal the identities of beneficial owners, making money laundering methods more prevalent. Analysis reveals that traditional anti-money laundering models no longer suffice to cover the evolving landscape of money laundering tactics, especially considering the heightened complexity of real estate markets worldwide. Given the unique nature of real estate money laundering activities, anti-money laundering authorities must establish stronger risk identification and big data management systems. Looking ahead to the advancement of anti-money laundering technology, these applications will delve deeper into harnessing and leveraging advanced technologies such as big data and artificial intelligence to achieve real-time monitoring and analysis of real estate transactions, thereby accurately identifying potential money laundering risks.

## References

1. Mackin B (2018) Exclusive: The "Vancouver model" was coined by a prof from a land Down Under. The Breaker News.

2. Maloney M, Somerville T, Unger B (2019) Combatting Money Laundering in BC Real Estate. Expert Panel on Money Laundering in BC Real Estate pp: 1-184.

3. (2023) Proceeds of Crime (Money Laundering) and Terrorist Financing Act. FINTRAC's act and regulations.

4. (2023) Reporting entities must report certain transactions including suspicious transactions to the FINTRAC (Financial Transactions and Reports Analysis Centre of Canada). FINTRAC.

5. (2021) Transaction reporting requirements. FINTRAC.

6. German PM (2019) Turning the Tide - An Independent Review of Money Laundering in B.C. Real Estate, Luxury Vehicle Sales & Horse Racing. Dirty Money Part 2 Peter German & Associates Inc.

7. (2014) A Lawyer's Guide to Detecting and Preventing Money Laundering. International Bar Association the American Bar Association the Council of Bars and Law Societies of Europe.

8. (2024) Preventing abuse of the financial system for money laundering and terrorism purposes. EUROPA.

9. (2008) Money Laundering & Terrorist Financing Through the Real Estate Sector. FATF.

10. (2004) United Nations Convention Against Corruption. United Nations Office On Drugs And Crime

11. (2023) International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation. FATF pp: 1-148.

12. (2023) Enforcing the Land Owner Transparency Act. Land Owner Transparency Act.

Shawn R and Na J. Governance Strategies and Philosophies for Combating Real Estate Money Laundering In Canada. Int J Forens Sci 2024, 9(1): 000370.

Copyright© Shawn R and Na J.