



Rules Notice

Guidance Note

~~IIROC~~ [Investment Dealer and Partially Consolidated](#) Rules

Please distribute internally to:

Institutional
Internal Audit
Legal and Compliance
Retail
Senior Management
Trading Desk

Contact:

Member Regulation Policy
memberpolicymailbox@iiroc.ca

Business Conduct Compliance
businessconduct@iiroc.ca

GN-~~3200-21-007~~
~~Effective December 31, 2021~~ [3200-23-001](#)

Investment Dealer Anti-Money Laundering Compliance Guidance

Executive Summary

Dealer Members¹ (**Investment Dealers**) are required to meet a variety of applicable rules relating to anti-money laundering (**AML**) and anti-terrorist financing (**ATF**), including:

- ~~IIROC~~ [CIRO's IDPC](#) Rules,
- Canadian federal legislation,
- National Instrument 31-103 - Registration Requirements, Exemptions and Ongoing Registrant Obligations (**NI 31-103**), and

¹ [As defined in subsection 1201\(2\) of the Investment Dealer and Partially Consolidated \(**IDPC**\) Rules.](#)



- other AML/ATF requirements applicable to [Investment](#) Dealers for activities carried out in various jurisdictions.

[Investment](#) Dealers must comply with all applicable laws and regulations relating to AML and ATF. We are publishing this Guidance to focus on the relationship between federal AML/ATF laws and ~~HRO~~[the IDPC Rules](#) client due diligence requirements to assist ~~our~~[Investment](#) Dealers in meeting their regulatory obligations.



Table of Contents

1.	Introduction	<u>54</u>
1.1	Purpose	<u>54</u>
1.2	Scope	<u>54</u>
1.3	Responsibility for AML/ATF compliance reviews	<u>54</u>
2.	Requirements	<u>54</u>
3.	Compliance and Supervision programs	<u>65</u>
3.1	Designation of an AML compliance officer	<u>65</u>
3.1.1	Enterprise AML/ATF departments	<u>76</u>
3.2	Anti-money laundering policies and procedures	<u>76</u>
3.2.1	Client account forms	<u>76</u>
3.3	Enterprise risk assessment	<u>7</u>
3.4	Training	<u>87</u>
3.4.1	Minimum requirements	<u>87</u>
3.4.2	Keeping training current	<u>87</u>
3.4.3	<u>Tailoring Training</u> Keeping training current	<u>87</u>
3.5	Review program	<u>98</u>
4.	Client due diligence	<u>98</u>
4.1	Client due diligence requirements	<u>98</u>
4.2	Keeping client information current	<u>108</u>
4.3	Business Relationship Records	<u>109</u>
4.3.1	Business Relationships	<u>109</u>
4.3.2	Documentation	<u>109</u>
4.3.3	Periodic updating	<u>119</u>
4.3.4	Client risk assessment	<u>1110</u>
4.4	Introducing and Carrying Brokers' obligations	<u>1210</u>
4.5	Registered plan accounts	<u>1311</u>
4.6	Trading authorization	<u>1311</u>
4.7	Non-individual clients	<u>1312</u>
4.7.1	Client structure	<u>1412</u>
4.7.2	Direct or indirect control	<u>1412</u>
4.7.3	Establishing identity	<u>1513</u>
4.7.4	Identity verification timing	<u>1513</u>
4.7.5	Exceptions to client identification requirements	<u>1614</u>
4.7.6	Politically Exposed Persons and Heads of International Organizations	<u>1614</u>
5.	Key risk indicators for <u>Investment</u> Dealers	<u>1715</u>
5.1	Client due diligence risks	<u>1715</u>
5.1.1	Clients with complex ownership structures	<u>1715</u>



5.1.2	Using accounts for undeclared purposes	1815
5.2	Trading risks	1816
5.2.1	Over-the-Counter (OTC) securities.....	1816
5.2.2	Stock manipulation	1816
5.2.3	Low-priced securities	1816
5.2.4	Inactive issuers and shell companies	1816
5.3	Non-trading risks	1916
5.3.1	Cash deposits or withdrawals	1916
5.3.2	Physical certificates deposits	1917
5.3.3	Early redemption of securities	1917
5.3.4	Requesting proceeds in the form of negotiable instruments.....	1917
5.3.5	Transfer of funds between accounts.....	1917
6.	Suspicious transactions	1917
6.1	Account Supervision requirements.....	2017
6.2	Account Supervision programs and ongoing monitoring.....	2118
6.3	Enhanced measures for high risk business relationships.....	2219
6.4	Other Compliance and Supervision systems and procedures	2219
7.	U.N. suppression of terrorism reports and similar requirements.....	2219
8.	Applicable Rules	2220
9.	Previous Guidance Notes	2220
10.	Appendices.....	2320
	Appendix A: Client Due Diligence and Large Cash Transaction Requirements	2421
	Appendix B: More Information on Money Laundering Legislation	2522
	Appendix C: Penalties for Violations of PCMLTFA.....	2824
	Appendix D: Classification of Violations for Determining Administrative Penalties.....	2925
	Appendix E: Members of FATF (Financial Action Task Force)	3026
	Appendix F: Stock Exchanges Recognized Under Section 262(1) of the <i>Income Tax Act</i> in FATF Member Countries.....	3127
	Appendix G: Reference Material	3228
	Appendix H: Client Identification and Verification Requirements Comparison Chart.....	3329
	Appendix I: Beneficial Ownership Diagram.....	3531



1. Introduction

1.1 Purpose

In this Guidance, we outline the AML/ATF regulatory requirements and expectations applicable to [Investment](#) Dealers. We also include links to resources to assist [Investment](#) Dealers in meeting their obligations.

1.2 Scope

At this time, we are limiting this Guidance to Investment Dealers. We are consolidating² the IDPC's and Mutual Fund Dealer Rules' client due diligence, know-your-client and surveillance requirements, which overlap with Dealer Members' AML/ATF obligations and are referenced throughout this Guidance. As part of our integration of Investment Dealer and Mutual Fund Dealer Member compliance testing, we are also developing consistent AML/ATF examinations for all CIRO Dealer Members, as it relates to shared AML/ATF regulatory oversight between CIRO and the Financial Transactions and Reports Analysis Centre of Canada³ (FINTRAC). Once we complete that work, we plan to revisit this Guidance.

[Investment](#) Dealers have a variety of business models. We do not discuss each type in this Guidance. We expect each [Investment](#) Dealer will adapt its AML/ATF compliance program(s) to its business model.

1.3 Responsibility for AML/ATF compliance reviews

Regulatory oversight of [Investment](#) Dealer compliance with AML/ATF rules is shared between ~~IIROC~~[CIRO](#) and ~~the Financial Transactions and Reports Analysis Centre of Canada⁴ (FINTRAC)~~. FINTRAC includes ~~IIROC member firms~~[CIRO Investment Dealers](#) in its AML examination coverage, outreach and guidance. ~~IIROC~~[CIRO](#)'s Business Conduct Compliance ~~unit~~, [Investment Dealer Division](#) also performs focused AML/ATF testing as part of regularly scheduled examinations of [Investment](#) Dealers, based on an analysis of various risk-based factors. ~~IIROC~~[CIRO](#) and FINTRAC exchange information pertaining to [Investment](#) Dealer AML/ATF compliance on a regular basis (through an information sharing agreement). Even in cases where ~~IIROC~~[CIRO](#) does not perform focused AML/ATF testing as part of ~~a~~[an Investment](#) Dealer exam, we will generally review certain aspects of the [Investment](#) Dealer's AML/ATF compliance program as part of other testing including with respect to client identification, trading activity, and fund transfers.

2. Requirements

~~IIROC~~[IDPC Rules](#) client due diligence requirements²⁴ have purposes that differ from, and are in addition, to AML/ATF requirements. Some of our client due diligence rules require more information than the related [Proceeds of Crime \(Money Laundering\) and Terrorist Financing Act \(PCMLTFA\)](#) or [Proceeds of Crime \(Money Laundering\) and Terrorist Financing Regulations \(PCMLTF Regulations\)](#) provisions to ensure that [Investment](#) Dealers obtain information necessary to investigate capital markets abuse.

² See [Bulletin 23-0089 for more information on CIRO's rulebook consolidation](#).

³ [FINTRAC administers PCMLTFA and associated regulations](#).

~~⁴ FINTRAC administers PCMLTFA and associated regulations.~~

²⁴ See Part A of ~~IIROC~~[IDPC](#) Rule 3200, specifically section 3202.



We remind Investment Dealers that where ~~HROC requirements~~ IDPC Rules differ from applicable laws, they must comply with the more stringent requirement. In this Guidance, we refer to the PCMLTFA and the PCMLTF Regulations jointly as the **AML rules**.

~~HROCCIRO~~ has its own Investment Dealer client identification requirements³⁵ ~~applicable to all Dealers~~. These requirements are ~~primarily~~ set out in Part A of ~~HROC~~ IDPC Rule 3200.

Investment Dealers may also be subject to certain client due diligence requirements under National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations (NI-31-103)*.

3. Compliance and Supervision programs

Under the PCMLTFA, Investment Dealers must establish an AML/ATF compliance program.⁶ The PCMLTF Regulations⁷ set out specific requirements, including:

- the appointment of a person responsible for the compliance program,
- the development and application of compliance policies and procedures that are up to date and approved by a senior officer,
- ~~a program to assess~~ regular assessment and documentation of the risk of a money laundering or terrorist financing offence being conducted through the firm, and implementation of measures to mitigate high-risk scenarios,
- an ongoing ~~written~~ documented compliance training program for employees⁴⁸ of the firm, and
- a review of ~~policies and procedures~~ the compliance program to test their effectiveness to be conducted every two years by an internal or external auditor.

Under ~~HROC~~ IDPC Rules 1400 and 3900, Investment Dealers are required to establish a compliance and supervision program. ~~A~~ An Investment Dealer's AML compliance program could be a part of its compliance and supervision program.

FINTRAC's Compliance program requirements guidance contains details on specific AML requirements for compliance programs.

3.1 Designation of an AML compliance officer

~~A~~ An Investment Dealer must designate a person responsible for its anti-money laundering program (**AML Compliance Officer**)⁵⁹.

Based on the roles and responsibilities of the Chief Compliance Officer (**CCO**) set out in ~~HROC~~ IDPC Rule 3900, a CCO could be appointed as the AML Compliance Officer responsible for the AML/ATF compliance program, including approving policies and procedures. While this could help the CCO ensure integration of

³⁵ See Part A of ~~HROC~~ IDPC Rule 3200, specifically sections 3203 through to 3207.

⁶ See section 9.6 of the PCMLTFA.

⁷ See section 156 of the PCMLTF Regulations.

⁴⁸ Where the term "employee" is used with reference to Investment Dealers, it includes Registered Representatives in a principal/agent relationship with ~~a~~ An Investment Dealer Member and any employees of an agent who are engaged in the Investment Dealer Member's business.

⁵⁹ See section ~~71~~ 156 of the ~~PCTFML~~ PCMLTF Regulations.



AML/ATF procedures into the firm's compliance program, [Investment](#) Dealers may want to assess their CCO's duties first to determine whether they have the capacity to fulfill this additional function.

[Investment](#) Dealers' AML Compliance Officers should remain up-to-date with AML/ATF rules and risks. If CCOs deal with day-to-day regulatory issues, changes to securities regulations and to AML/ATF requirements, they may not have enough time to maintain the knowledge needed to oversee an effective AML/ATF regime. If this is the case, the [Investment](#) Dealer may want to consider designating a different qualified individual as the AML Compliance Officer.

3.1.1 Enterprise AML/ATF departments

Some [Investment](#) Dealers maintain enterprise AML/ATF departments across the [Investment](#) Dealer and its affiliates. As set out above, these [Investment](#) Dealers must designate an AML Compliance Officer; however, that person can report to both the enterprise group and [the Investment Dealer's](#) senior management ~~of the Dealer~~. The [Investment](#) Dealer remains responsible for its own AML/ATF program and cannot delegate this responsibility to an enterprise group. [Investment](#) Dealer senior management must be kept informed of significant issues. In addition, where the AML rules require approval of a senior officer, it should be the [Investment](#) Dealer's senior officer.

For further guidance on the appointment of an AML Compliance Officer, [Investment](#) Dealers can consult FINTRAC's [Compliance program requirements](#) guidance.

3.2 Anti-money laundering policies and procedures

~~A~~[An Investment](#) Dealer's AML/ATF program should include systems and controls designed to prevent and detect money laundering and terrorist financing and to comply with applicable laws.

[Investment](#) Dealers can combine their policies and procedures for compliance with AML/ATF rules with other requirements pertaining to securities laws and ~~HROC~~[HROC Corporation](#) requirements¹⁰. However, [Investment](#) Dealers should not rely solely on systems and procedures designed to prevent money laundering and terrorist financing to meet securities requirements, such as suitability.

As a best practice, [Investment](#) Dealers should integrate AML/ATF policies and procedures with other compliance and supervisory procedures. This will ensure AML/ATF compliance is a part of the business and will not be duplicative. While learning materials outlining specific AML/ATF procedures are a useful part of an education process, integration into the firm's overall know-your-client (KYC), compliance and supervisory procedures ensure that they become part of the established practice.

[Investment](#) Dealers should review their AML/ATF procedures regularly and update them as needed based on any legal/regulatory or business/operational changes.

[Investment](#) Dealers may want to consult FINTRAC's [Compliance program requirements](#) guidance for more details on AML/ATF compliance policies and procedures.

3.2.1 Client account forms

As a best practice, [Investment](#) Dealers should address AML/ATF client information requirements in their new account forms and related documents. To assist clients in accurately completing their forms,

¹⁰ [As defined in section 1201\(2\).](#)



Investment Dealers should include definitions where appropriate. For example, a question on an application regarding who is a politically exposed person or head of an international organization should have a definition of those terms, especially if clients complete the form.

3.3 Enterprise risk assessment

Investment Dealers must conduct a money laundering/terrorist financing risk assessment of their business. Section 71156 of the PCMLTF Regulations lists the minimum factors to consider in assessing this risk:

- clients and business relationships,
- products, services and delivery channels,
- geographic location of activities,
- impact of new developments and new technologies on clients and business activities before their implementation,
- risks of an affiliate, and
- other relevant factors.

FINTRAC has many tools to assist Investment Dealers in conducting risk assessments. Investment Dealers may want to consult the following when establishing and conducting risk assessments:

- ~~Risk-based approach workbook for securities dealers~~,
- ~~Guidance on the Risk-Based Approach to Combatting Money Laundering and Terrorist Financing~~Risk assessment guidance, and
- Compliance program requirements.

3.4 Training

Investment Dealers must train all employees with respect to AML/ATF procedures, including the detection of attempted and/or completed suspicious transactions and compliance with AML rules and HROC Corporation requirements.

3.4.1 Minimum requirements

Investment Dealers should tailor the contents of this AML/ATF training to reflect their business model. They should address at minimum:

- the Investment Dealer's KYC policy and procedures,
- the roles of client-facing Approved Persons, operations, Supervisors, management and others,
- Investment Dealer potential indicators of suspicious activity,
- rules and regulations for reporting currency transactions (if applicable) and suspicious transactions,
- Investment Dealer procedures for reporting unusual transactions and reporting suspicious transactions, and
- civil and criminal penalties associated with money laundering and terrorist financing.

Investment Dealers should also maintain a record of all individuals who participated in the training.



3.4.2 Keeping training current

Investment Dealers should update their training materials to reflect any developments, new techniques or money laundering trends identified by various government agencies such as FINTRAC and the Financial Action Task Force (**FATF**).

3.4.3 Tailoring Training

Investment Dealers should consider tailoring their training for different roles within the firm. For example, while Approved Persons with direct client contact may be in the best position to identify suspicious activity, other departments such as treasury, operations, margin, credit, corporate security, audit, legal and compliance should be able to identify red flags for their areas of activity.

3.5 Review program

Under the PCMLTF Regulations, an Investment Dealer's internal or external auditors must conduct a compliance effectiveness review of the Investment Dealer's AML program at least once every two years.¹¹ At a minimum, the review ~~must~~should cover the topics discussed in sections 3.2, 3.3 and 3.4.

Following this review, Investment Dealers must report in writing the following to senior management:

- their findings, including any deficiencies identified, planned corrective actions, and implementation timelines, and
- any policies and procedure updates and their implementation status.¹²

Investment Dealers should include this report (or a summary of it) in the CCO's annual report to the Board on compliance matters.⁶¹³

4. Client due diligence

4.1 Client due diligence requirements

The PCMLTF Regulations establish specific "client due diligence" (**CDD**) requirements, which include information gathering, client identity verification and record keeping. ~~HROC Rule 3100, IDPC Rule 3200 and 3400 contain~~contains similar requirements, including KYC and client identification rules. We expect Investment Dealers will leverage the same client information to satisfy their obligations under both the ~~HROC IDPC~~ Rules and the PCMLTF Regulations.

The ~~HROC IDPC~~ Rules and the PCMLTF Regulations sometimes require Investment Dealers to look at client information from different perspectives and consider different or additional elements. The purpose of the PCMLTFA is to detect and deter money laundering and terrorist financing. ~~HROCCIRO~~'s primary mandate is to protect investors and support healthy capital markets. These different objectives may result in inconsistencies between the two sets of requirements. Investment Dealers should be aware of these different objectives when collecting CDD information.

¹¹ See section 156 of the PCMLTF Regulations.

¹² See section 156 of the PCMLTF Regulations.

⁶¹³ As required by ~~HROC Rule~~IDPC Rules sub-section 3915(1).



For example, under the AML rules, [Investment](#) Dealers are required to collect information on the purpose and intended nature of a business relationship (as discussed further in section 4.3 of this Guidance).¹⁴ The objective of collecting this information is to detect if any client transactions are suspicious and could indicate money laundering or terrorist financing. The [HROC/IDPC](#) Rules require [Investment](#) Dealers to collect their client's investment objectives to ensure the investments in their clients' accounts are suitable for them. ~~A~~ [Investment](#) Dealer may collect the same information under both requirements, but may not be using it for the same purpose.

4.2 Keeping client information current

~~The~~ PCMLTF Regulations and the [HROC/IDPC](#) Rules require [Investment](#) Dealers keep CDD and KYC information up to date. Sub-section 3202(3) of the [HROC/IDPC](#) Rules requires ~~a~~ [Investment](#) Dealer to take reasonable steps to keep client identification information current. [Investment](#) Dealers ~~should~~ must also take reasonable steps to update this information ~~any~~ within a reasonable time ~~there is~~ after they become aware of a material change in the client's ~~circumstances~~.

~~We recommend the following best practices⁷:~~

- ~~— for full-service Dealers, instruct Approved Persons to update client information as necessary during their regular meetings with clients, and advise clients in account opening documentation that they have an obligation to notify their Approved Person when there is a material change in their circumstances, and KYC information.¹⁵ As a best practice, Dealers should use these KYC and client due diligence information update touchpoints as an opportunity to help meet AML rule requirements.~~

~~For clients who are not individuals, FINTRAC recommends firms keep their information current by consulting paper or electronic records or verbally obtaining information. FINTRAC also recommends that, for individuals, a firm update the client's information using options available to identify individuals who are not physically present (i.e., either using a Dealer's affiliate or co-member or a combination of methods).⁸ Dealers can also use this information to help meet their obligations under our rules.~~

4.3 Business Relationship Records

4.3.1 Business Relationships

Under the PCMLTF Regulations, firms must establish and maintain records relating to business relationships (**Business Relationship Record**), in addition to basic client identification requirements.¹⁶ A business relationship exists when:

- ~~a client holds one or more accounts~~ person opens an account with ~~a~~ [Investment](#) Dealer, or

¹⁴ See section 145 of the PCMLTF Regulations.

⁷ ~~See GN-3400-21-004~~

¹⁵ See subsection 3209(3) of the IDPC Rules. We discuss these requirements further in GN-3400-21-004.

⁸ ~~See FINTRAC guidance When to identify individuals and confirm the existence of entities — Securities dealers~~

¹⁶ See section 145 of the PCMLTF Regulations.



- a client person conducts two or more transactions within a five-year period that require the Investment Dealer to ascertain the identity of the client.¹⁷

If a client maintains multiple accounts with an Investment Dealer associated with various products and services, the Investment Dealer should consider the business relationship as a whole when conducting the risk assessment and resulting monitoring.

4.3.2 Documentation

Investment Dealers must document the purpose and intended nature of each business relationship.¹⁸ They should include the client's intentions for the assets held within its account(s).

Investment Dealers may use the client's investment objectives to inform the purpose and intended nature of the business relationship. For business relationships involving multiple accounts, the Investment Dealer ~~must~~ should include all accounts when documenting the purpose and intended nature of the business relationship.

4.3.3 Periodic updating

Investment Dealers must keep the Business Relationship Record current.¹⁹ The Business Relationship Record helps Investment Dealers anticipate client activities. Through ongoing monitoring, Investment Dealers may notice a deviation from anticipated client activity triggering them to reassess the client's risk level. Investment Dealers may also need to reassess the client's KYC and/or the suitability of its overall portfolio.

As noted in section 4.2, Investment Dealers can update client information during their periodic meetings with clients. If the client's beneficial ownership has changed, the Investment Dealer must determine who owns or controls the entity by complying with Part A of HROCIDPC Rule 3200 and section ~~11.1~~ 138 of the PCMLTF Regulations⁹²⁰. The Investment Dealer must record the information obtained to update the client's beneficial ownership information.

Investment Dealers must review high risk business relationships ~~more frequently~~ at a frequency appropriate to their risk²¹. Investment Dealers should determine the frequency of the review based on their risk assessment. Investment Dealers should document the high risk nature of the business relationship in their risk assessment.

4.3.4 Client risk assessment

Investment Dealers must conduct a risk assessment for all clients.²² In certain cases, a business relationship may exist even if the client has not opened an account. For example, an investment banking relationship does not necessarily involve opening a client account. In this case, the Investment Dealer may not be

¹⁷ See section 4.1 of the PCMLTF Regulations.

¹⁸ See section 145 of the PCMLTF Regulations.

¹⁹ See section 123.1 of the PCMLTF Regulations.

⁹²⁰ As described in Notice 19-0145 Notice 19-0145, Part A of HROCIDPC Rule 3200 was amended to materially conform with section 11.1 of the PCMLTF Regulations.

²¹ See section 157 of the PCMLTF Regulations.

²² See section 123.1 of the PCMLTF Regulations.



required to ascertain identity under the AML rules nor document or monitor the business relationship. However, the [Investment](#) Dealer must still conduct a risk assessment based on a number of factors:

- the products, services and channels⁴⁰²³ the client uses,
- where the client lives or which countries they transact in, and
- the client's characteristics, activities and transaction patterns.²⁴

[Investment](#) Dealers should use the information contained in the Business Relationship Record to identify risk factors that apply to the overall business relationship.

For more information on the PCMLTF Regulations' client due diligence and business relationship requirements, including ongoing monitoring and risk assessments, please consult the following FINTRAC Guidance:

- [Business relationship requirements](#),
- ~~When to identify individuals and confirm the existence of entities – Securities dealers~~[When to verify the identity of persons and entities – Securities dealers](#),
- ~~Methods to identify individuals and confirm the existence of entities~~[Methods to verify the identity of persons and entities](#), and
- [Compliance program requirements](#).

4.4 Introducing and Carrying Brokers' obligations

PCMLTF Regulations exempt carrying brokers from CDD for clients of introducing brokers whose accounts they carry⁴¹²⁵. Introducing brokers are responsible for conducting CDD. The PCMLTF Regulations are silent on introducing broker/carrying broker arrangement types, so this exception applies to all types of arrangements. However, this exception covers only the PCMLTF Regulations' CDD requirements; it does not cover large cash transactions and suspicious transactions reporting requirements.

Regardless of this exception, under the ~~IRROCIDPC~~ Rules, we consider a client to be a client of both the introducing and the carrying broker in all types of arrangements [with respect to the services the carrying broker performs for the introducing broker](#).

As a best practice, we recommend introducing and carrying brokers address AML/ATF compliance in their introducing broker/carrying broker agreements. At minimum, these agreements should address the following:

- which party is responsible for anti-money laundering procedures,
- the information the introducing firm needs to conduct CDD in the case the carrying broker provides standard account documentation forms,
- reports the carrying broker will provide to the introducing broker to fulfill its transaction monitoring responsibilities,
- what support the carrying broker will provide, such as checking of client names against terrorist lists,

⁴⁰²³ As discussed in FINTRAC's Compliance program requirements guidance.

²⁴ See section 156 of the PCMLTF Regulations.

⁴¹²⁵ See the PCMLTF Regulations section ~~62(2154(2))~~(op).



- compliance with record keeping and access requirements, and
- if clients can deal directly with the carrying firm to conduct transactions such as deposits, withdrawals and wire transfers, there should be communication between the firms to enable proper monitoring for unusual activity.

Carrying brokers may decide to develop or enhance tools to assist introducing brokers in analyzing client transactions. These tools could include client account deposit and trade reports. Carrying brokers should disclose these reports to introducing brokers at the inception of the introducing/carrying relationship.

Introducing and carrying brokers should communicate effectively when dealing with indications of unusual activity. For example, when a carrying broker reports a potentially suspicious activity to an introducing broker, the introducing broker should show the carrying broker how that activity has been addressed. Introducing brokers can advise their carrying broker of any other activity that should be reviewed.

Introducing and carrying brokers should advise anyone conducting an audit of their anti-money laundering procedures of their agreed responsibilities. Both Investment Dealers' auditors should work together and share information to ensure both parties are executing their responsibilities according to applicable laws and requirements and the introducing/carrying broker agreement.

4.5 Registered plan accounts

The PCMLTF Regulations exempt registered plan accounts, such as locked-in retirement plan accounts and registered retirement savings plan accounts from the following requirements⁴²²⁶:

- client due diligence, including politically exposed persons and heads of international organizations requirements, under ~~s.57 and s.57.1 of the PCMLTF Regulations~~ sections 94 and 119 of the PCMLTF Regulations, and
- client account record keeping under ~~s.23 of the PCMLTF Regulations~~ section 29 of the PCMLTF Regulations.

The HROC/DPC Rules do not include equivalent exemptions for registered plan accounts because our requirements have a different purpose. Investment Dealers must comply with Part A of HROC/DPC Rule 3200 when opening all client accounts, including registered plan accounts. Investment Dealers must establish the identity of every client who opens a registered plan account using such methods that allow them to form a reasonable belief it knows the identity of the individual and by taking reasonable measure to confirm the information obtained.

While Investment Dealers must comply with Part A of HROC/DPC Rule 3200 when opening registered plan accounts, they are not required to comply with the PCMLTF Regulations those accounts are exempted from, including the politically exposed persons and heads of international organizations requirements.

4.6 Trading authorization

Subsection 3220(4) of the HROC/DPC Rules requires Investment Dealers to record all individuals who have trading authorization over their clients' accounts.

⁴²²⁶ See PCMLTF Regulations, ~~s.62(2)(i)~~ section 154(2)(i)



Under ~~s.23 of the PCMLTF Regulations~~, section 29 of the PCMLTF Regulations, Investment Dealers must record (amongst other items) ~~the signature of~~ every person authorized to give instructions on the account. ~~Subsection 57(1) of the PCMLTF Regulations~~ Subsection 94(a) of the PCMLTF Regulations requires Investment Dealers ascertain the identity of every person who can give instructions with respect to an account.

Investment Dealers can use the information they collect under these PCMLTF Regulations on individuals authorized to give instructions to comply with subsection 3220(4) of the ~~HROC~~IDPC Rules.

4.7 Non-individual clients

As discussed in section 5.1.1 of this Guidance, money launderers can use corporations and other non-individual accounts to shield their identity and make it more difficult to investigate their illegal conduct.

Part A of ~~HROC~~IDPC Rule 3200 was initially implemented to deter money laundering through such entities and to assist in market conduct investigations. While the ~~HROC~~IDPC Rules are intended to be consistent with similar provisions in ~~National Instrument NI 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations~~ and with the PCMLTF Regulations, in certain respects, the ~~HROC~~IDPC Rules may still be more stringent than the PCMLTF Regulations.⁴³²⁷ Investment Dealers must always comply with the strictest requirement.

4.7.1 Client structure

~~HROC~~IDPC Rule 3200 requires Investment Dealers to establish the identity⁴⁴²⁸ of any individual who exercises control over any corporations, partnerships and trusts who are their client, in addition to these clients' beneficial owners, beneficiaries and other controlling individuals. Investment Dealers should understand their clients' ownership and control structure. Ownership and control are not always synonymous. Trustees can control a trust without being beneficiaries. Where a corporation has voting and non-voting shares, ownership may be separate from control. Accordingly, sub-clause 3204(1)(iii) of the ~~HROC~~IDPC Rules refers to beneficial ownership or control "of the voting rights attached to the outstanding voting securities of a corporation". When establishing the identity of individuals who exercise control over the affairs of a partnership or trust, Investment Dealers should identify those individuals who have the power to influence the trusts' or partnerships' affairs, regardless of the structure of the partnership or the trust.

4.7.2 Direct or indirect control

~~HROC~~IDPC Rule 3200 requires Investment Dealers to establish the identity⁴⁵²⁹ of individuals who exercise "direct or indirect" control over 25% or more of a corporation. If a corporation is owned or controlled by other entities, the Investment Dealer must identify those individuals who ultimately have beneficial ownership or control over its clients. Where a client has multiple owners, the Investment Dealer should establish the ownership or control of each individual involved.

⁴³²⁷ See Appendix H for more details.

⁴⁴²⁸ See ~~HROC~~IDPC Rule section 3206 and section 4.7.3 ~~below~~of this Guidance for details.

⁴⁵²⁹ See ~~HROC~~IDPC Rule section 3206 and section 4.7.3 below for details.



For example, if an individual owns 50% of the voting shares of a corporation that owns 25% of the voting shares the client, this individual owns directly 12.5% of the client. This individual's ownership falls below our 25% threshold, so the [Investment](#) Dealer would not need to identify them. However, if the individual owned 100% of the voting shares of a corporation that owns 25% of the voting shares of the client, the [Investment](#) Dealer must identify the individual as they indirectly owns own 25%. We included a chart in **Appendix I** that shows the calculation of percentage indirect ownership in a multi-level ownership structure.

PCMLTF Regulations require [Investment](#) Dealers to obtain the name and address of anyone owning, directly or indirectly, 25% or more of a corporation or other entity.³⁰ By complying with [HROC/DPC](#) Rule 3200, [Investment](#) Dealers will comply with the PCMLTF Regulations.

However, if a client is considered high risk, as a best practice, [Investment](#) Dealers may consider whether to identify individuals who own or control less than 25%. For example, if ~~an~~ [Investment](#) Dealer suspects that a client has an ownership structure designed to dilute or obscure the account's true beneficial owners, as a best practice, it may consider identifying individuals who own or control less than 25% of the company.

[Investment](#) Dealers must record the measures taken and the information obtained in determining beneficial ownership.³¹ [Investment](#) Dealers must maintain these records for all non-individual clients, regardless of their structure.³²

4.7.3 *Establishing identity*

[HROC/DPC](#) Rule 3200 requires [Investment](#) Dealers to establish the identity of:

- individual beneficial owners of 25% of corporations,
- individuals who exercise direct or indirect control or direction of 25% of corporations, and
- individuals who exercise control over partnerships and trusts.

This rule does not specify any method of establishing these individuals' identity. We require [Investment](#) Dealers use "such methods that allow the [Investment](#) Dealer to form a reasonable belief that it knows the identity of the individual and by taking reasonable measures to confirm the accuracy of the information obtained."⁴⁶³³ The PCMLTF Regulations require [Investment](#) Dealers "take reasonable measures to confirm the accuracy of the information when it is first obtained"⁴⁷.³⁴ FINTRAC's [Beneficial ownership requirements](#) guidance goes into detail on how [Investment](#) Dealers should confirm this information.

Although the [HROC/DPC](#) Rules do not specify a method, [Investment](#) Dealers are required to comply with the PCMLTF Regulations as outlined in the following FINTRAC guidance:

- [Beneficial ownership requirements, and](#)
- [Ongoing monitoring requirements.](#)

³⁰ See section 138 of the PCMLTF Regulations.

³¹ See section 138(3) of the PCMLTF Regulations. See also section 3804 of the IDPC Rules.

³² See section 138(3) of the PCMLTF Regulations. See also section 3804 of the IDPC Rules.

⁴⁶³³ See [HROC/DPC](#) Rules, section 3206.

⁴⁷ See s.11.1(2) of the PCMLTF Regulations

³⁴ See subsection 138(2) of the PCMLTF Regulations.



If ~~an~~ [Investment](#) Dealer complies with the requirements outlined in this FINTRAC guidance, we would consider this a reasonable method of establishing the individual's identity.

4.7.4 Identity verification timing

~~HROC~~[IDPC](#) Rule 3200 requires [Investment](#) Dealers to establish the identity of beneficial owners and individuals who exercise control over corporations, partnerships and trusts “as soon as it is practicable, but not more than 30 days after opening the account.” While 30 days is the maximum amount of time, [Investment](#) Dealers should begin their efforts at as soon as possible. ~~HROC~~[IDPC](#) Rule 3200 is consistent with the PCMLTF Regulations, which require that the existence of the corporation or another entity be verified within 30 days of account opening.

Under section ~~11.1 of the PCMLTF Regulations, a~~[138 of the PCMLTF Regulations, an Investment](#) Dealers can open an account for a corporation or another entity without obtaining and confirming details about its beneficial owners, beneficiaries and other controlling individuals, provided the [Investment](#) Dealer meets certain conditions, including ascertaining the identity of the entity's ~~most senior manager and treating that entity's activities as high risk~~[chief executive officer or the person who performs that function and taking special measures, including:](#)

- [taking enhanced measures to verify the entity's identity, and](#)
- [updating client identification information and conducting ongoing monitoring of the business relationship more frequently.](#)

However, under section 3206 of the ~~HROC~~[IDPC](#) Rules, if ~~an~~ [Investment](#) Dealer cannot establish the beneficial owners' and the controlling individuals' identity within 30 days, it must limit trading in the account.

If ~~an~~ [Investment](#) Dealer cannot obtain and verify the necessary client information, it should review the situation to determine if any suspicious transaction reporting is required.

4.7.5 Exceptions to client identification requirements

Section 3207 of the ~~HROC~~[IDPC](#) Rules contain exceptions for certain entities from our client identification requirements. Such entities include:

- Canadian financial institutions and their affiliates,
- Canadian securities registrants,
- Authorized foreign banks or Schedule III banks,
- Canadian pension funds, and
- Canadian public bodies or corporations (or their affiliates) with minimum net assets of \$75 million:
 - whose shares are traded on a Canadian stock exchange or a stock exchange designated under subsection 262(1) of the Income Tax Act, and
 - who operate in a country that is a member of the Financial Action Task Force.

~~Section 62(2)~~[Section 154\(2\)](#) of the PCMLTF Regulations contain similar exceptions, with some key distinctions. For instance, while the PCMLTF Regulations have exceptions for accounts where a Canadian financial institution or Canadian securities registrant provides instructions, our rules do not provide exceptions for these account types. However, [Investment](#) Dealers must still comply with ~~HROC~~[the IDPC](#)



[Rules](#) KYC requirements. We expect [Investment](#) Dealers will establish the identity of every client who owns a registered plan account in accordance with [HROC/IDPC](#) Rule 3200.

4.7.5.1 *Prohibition on shell banks*

Sections 3205 of the [HROC/IDPC](#) Rules prohibit [Investment](#) Dealers from opening or maintaining accounts for any shell bank. Sub-section 3205(1) defines a shell bank as a bank that does not have any physical presence in any country.

The exceptions discussed in section 4.7.5 of this [guidance](#) [Guidance](#) do not exempt affiliates of Canadian financial institutions from this prohibition on shell banks.

4.7.6 *Politically Exposed Persons and Heads of International Organizations*

[HROC/IDPC](#) Rules do not include any specific requirements on politically exposed persons or heads of international organizations. [HROC/IDPC](#) Rule 3200 requires [Investment](#) Dealers to use due diligence to learn and remain informed of the essential facts relative to each client. We consider information collected under the PCMLTFA on a client's status as a politically exposed person or head of an international organization to be essential facts.

For more information on the PCMLTFA's politically exposed persons and heads of international organization requirements, consult FINTRAC's [guideline](#) [guidelines](#) "[Politically exposed persons and heads of international organizations – securities dealers](#)" [Politically exposed persons and heads of international organizations](#)" and "[Politically exposed persons and heads of international organizations guidance for account-based reporting entity sectors](#)".

5. Key risk indicators for [Investment](#) Dealers

[Investment](#) Dealers can identify potential risk indicators based on specific client [behaviour](#) [behaviours](#). In this section, we outline key risk indicators for [Investment](#) Dealers. If a client exhibits any of the following behaviours or if the [Investment](#) Dealer is concerned these behaviours could be occurring, it should investigate further.

Even if the [Investment](#) Dealer decides not to open an account or conduct a transaction, it should consider whether it has reasonable grounds for filing a suspicious transaction report. Section 6 deals with suspicious transactions.

For more information on key money laundering and terrorist financing risk indicators, consult FINTRAC's guidance on "[Money Laundering and Terrorist Financing Indicators – Securities Dealers](#)".

5.1 Client due diligence risks

5.1.1 *Clients with complex ownership structures*

Some non-individual clients (such as trusts or corporations) can have complex ownership structures that obscure the true beneficial owners of the account. [HROC's](#) [The](#) client identity requirements in Part A of [IDPC](#) Rule 3200 are intended to "pierce the corporate veil" and identify the account's true beneficial owner. If the [Investment](#) Dealer is finding it challenging to fulfill these requirements, it may be an indication of a complex ownership structure.



These clients can use off-book transactions, offshore accounts and nominees to further obscure true beneficial ownership. Clients may use accounts in one country as a “pass through” for accounts in other countries. This can indicate tax evasion, which is a predicate offence to money laundering.

If individuals want to use an entity to obscure the source of their funds or hide beneficial ownership, they may structure that entity’s ownership to avoid our beneficial ownership requirements. For instance, an individual may hold 24.9% of an entity to avoid being caught above our 25% threshold. As a best practice in such cases, [Investment](#) Dealers should consider identifying such beneficial owners.

While Part A of [IDPC](#) Rule 3200 requires [Investment](#) Dealers to collect information on beneficial owners of 25% or more of a corporation, when faced with a client who is higher risk, as a best practice, [an Investment](#) Dealer should consider identifying beneficial owners of less than 25%.

5.1.2 Using accounts for undeclared purposes

While [Investment](#) Dealers are required to record the intended use of each client’s account, it can be challenging to monitor whether the client is using its account for undeclared purposes. We expect the recorded intended use to be consistent with:

- client’s KYC information, including its investment objectives and time horizon, and
- transactions in the client’s account(s), including the types of securities purchased.

If not, the Investment Dealer should conduct further investigation.

5.2 Trading risks

5.2.1 Over-the-Counter (OTC) securities

Companies with OTC securities are not required to provide much financial information. There is little demand for low cost or risky OTC securities, which are attractive to individuals, who can use them to move funds.

5.2.2 Stock manipulation

Some forms of stock manipulation occur when a client, acting alone or with an Approved Person, artificially inflates or deflates the price of securities to make a profit. This is an example of the criminal activity taking place within the market, which could be a predicate offence to money laundering. This risk may appear in conjunction with the OTC securities risk described in section 5.2.1.

5.2.3 Low-priced securities

While low-priced securities may indicate an under-valued issuer, they could also be associated with fraudulent or potentially fraudulent companies. This risk may appear in conjunction with the OTC security risk in section 5.2.1, but may also be present with ~~publically~~[publicly](#) traded issuers on regulated markets. If a client frequently trades in low-priced securities this could indicate suspicious activity, especially if:

- the client immediately liquidates or transfers the proceeds, or
- the client does not provide a reasonable rationale for the trade.

Trading in low-priced securities could be used by individuals to obscure the trace of the funds.



5.2.4 *Inactive issuers and shell companies*

If an issuer does not have an active business or an active investor base, this could be an indication of a shell company. Shell companies are often used by individuals to launder money. Other indicators of a shell company include:

- no brick and mortar locations or locations which are shared with other companies or law firms,
- frequent changes to name, business plan or structure, or
- issuer information is hard to obtain or is fraudulent or misleading.

Trading in shell companies or inactive issues could indicate potential money laundering or fraud.

5.3 **Non-trading risks**

5.3.1 *Cash deposits or withdrawals*

Almost all client accounts at [Investment](#) Dealers are funded by either account transfers from other firms or direct deposits from Canadian banks or credit unions. Funds are usually removed from accounts in similar ways. As such, most transactions are conducted with other Canadian financial institutions subject to the same AML rules. If a client requests a cash deposit or withdrawal directly from the [Investment](#) Dealer, this could be an indicator of potential money laundering or terrorist financing as the client would remove funds from the regulated Canadian financial system.

5.3.2 *Physical certificates deposits*

The vast majority of securities are now traded electronically and physical certificates are rare. When physical certificates are deposited into a brokerage account, there is little information confirming the source of funds or how the client obtained them. As a result, there is a greater risk that they could be used by criminals to obscure the source of their money.

5.3.3 *Early redemption of securities*

Certain GICs and mutual funds can incur fees when sold early or prior to maturity. If a client is selling securities early and incurring a fee without a plausible explanation, this could indicate money laundering. Criminals may invest in these products to hide the source of their wealth and then sell them, making their money “clean”.

5.3.4 *Requesting proceeds in the form of negotiable instruments*

Proceeds of the sale of securities are typically held within a client’s account(s), usually to be reinvested or transferred to its bank account. Individuals might instead ask for the proceeds using bank drafts or certified cheques to disguise the true source and ownership of the funds.

5.3.5 *Transfer of funds between accounts*

Individuals may transfer money frequently between accounts, theirs or their family members’, to layer transactions and distance their money from its criminal origin. [Investment](#) Dealers should be suspicious of accounts used solely as conduits to transfer funds without legitimate securities transactions.

Likewise, [Investment](#) Dealers should also be wary of frequent changes of ownership between accounts of related or connected individuals and cross-border money movements.



6. Suspicious transactions

FINTRAC has issued the following guidelines on suspicious transactions:

- [Money laundering and terrorist financing indicators - Securities dealers](#),
- [What is a suspicious transaction report](#), and
- [Reporting suspicious transactions to FINTRAC](#).

6.1 Account Supervision requirements

~~IIROC~~IDPC Rule 3900 requires Investment Dealers supervise all account activities to ensure compliance with ~~IIROC~~Corporation requirements, securities laws and other applicable laws, including the PCMLTF Regulations and the PCMLTFA.⁴⁸³⁵

Investment Dealers' policies and procedures should provide for, amongst other things:

- identification of clients presenting a high AML risk to the Investment Dealer,
- identification of clients presenting a high risk of conducting improper activities in the securities markets, and
- screening of trading activity to detect issues for further enquiry or investigation.

Investment Dealers should consider "high risk" to include a high risk of conducting fraudulent securities activities, which are predicate money laundering offences and/or could be indications of money laundering and terrorism funding.

~~IIROC's Universal Market Integrity Rules~~CIRO's Universal Market Integrity Rules (UMIR) Rule 7.1 also includes trade supervision requirements that apply to Investment Dealers who are also Participants⁴⁹³⁶. For the purposes of UMIR 7.1, a supervision system must consist of both policies and procedures aimed at preventing violations from occurring and compliance procedures aimed at detecting whether violations have occurred.³⁷

~~IIROC~~IDPC Rule 3900 also requires Investment Dealers' account supervision programs to detect the following (among other items):

- unsuitable trading,
- excessive trade activities,
- trading in restricted securities,
- excessive trade transfers and trade cancellations indicating possible unauthorized trading,
- inappropriate or high risk trading strategies,
- excessive or improper crosses of securities between clients,
- manipulative and deceptive activities, and
- insider trading.

The PCMLTFA requires that Investment Dealers report attempted and completed suspicious transactions. The PCMLTFA and PCMLTF Regulations also require Investment Dealers to conduct ongoing monitoring of

⁴⁸³⁵ See ~~IIROC~~IDPC Rule ~~3900~~, clause 3904(2)(ii).

⁴⁹³⁶ See section 1.1 of UMIR for a definition of "Participant".

³⁷ See UMIR Policy 7.1.



their business relationships with clients. [Investment](#) Dealers can use their account supervision program to meet the AML rules' transaction and activity monitoring requirements.

For example, [Investment](#) Dealers may detect suspicious transactions through account supervision. Insider trading and manipulative and deceptive trading activities are considered predicate money laundering offences under the [Criminal Code \(RSC 1985, c. C-46\)](#). If [an Investment](#) Dealer detects these types of activities through its supervision program, it should consider reporting these activities to FINTRAC as a suspicious transaction. It is very difficult to separate a transaction that is part of a market-based criminal offense from a transaction designed to launder the proceeds of crime.

[Investment](#) Dealers can find information on common suspicious transactions in the securities industry in the FINTRAC [report's guidance](#), [Money Laundering Trends and Typologies in the Canadian Securities Sector](#) [Money Laundering and Terrorist Financing Indicators – Securities dealers](#).

6.2 Account Supervision programs and ongoing monitoring

[An Investment](#) Dealer Member's account supervision program can range from the manual monitoring of significant transactions or activities to the use of automated supervision systems²⁹³⁸. Once [an Investment](#) Dealer ~~Member~~ determines the appropriate method to supervise account activity effectively, it should adopt appropriate related procedures.

The frequency and nature of the monitoring should be commensurate with the risk level of the business relationship. More frequent monitoring will be required for high-risk business relationships. [An Investment](#) Dealer's policies and procedures should document at minimum:

- the actual monitoring processes,
- the required frequency, and
- the rationale to support the monitoring processes.

[Investment](#) Dealers should use the Business Relationship Record to determine whether transactions or activities are consistent with the client's information, including that client's risk assessment. The ongoing monitoring program can detect suspicious transactions and indicate when [an Investment](#) Dealer should reassess the client's risk level.

Although [Investment](#) Dealers frequently use risk-based supervision and monitoring procedures and focus on higher risk products, services and clients, they are still required to monitor all clients and business relationships. For example, while [Investment](#) Dealers may decide to monitor high risk clients more frequently than low risk clients, they must still monitor low risk clients. "Low risk" is not "no risk" and [Investment](#) Dealers should pay attention to all types of suspicious activities.

[Investment](#) Dealers should compare individual transactions to other account activities and the client's profile to determine whether they are suspicious. [Investment](#) Dealers should examine transactions seeming to lack a reasonable economic basis or recognizable strategy based on the particular client.

[Investment](#) Dealers should provide examples of potentially suspicious activity to all appropriate personnel and incorporate these into their anti-money laundering policies, procedures and training materials.

²⁹³⁸ The use of an automated supervision system may require [HROCCIRO](#) approval or discussion. Please contact your Business Conduct Compliance Manager.



[Investment](#) Dealers should advise their employees that they must escalate and report any suspicious activity to FINTRAC.

6.3 Enhanced measures for high risk business relationships

[Investment](#) Dealers can also implement additional enhanced measures for high-risk clients beyond frequently updating client identification information and more frequent monitoring of client activity. FINTRAC's [Compliance program requirements](#) guidance includes a list of potential enhanced measures

[Investment](#) Dealers can take.

6.4 Other Compliance and Supervision systems and procedures

[Investment](#) Dealers may find reviewing gatekeeper reports on market manipulation or insider trading filed under [UMIR Rule 10.16](#) to be helpful sources when determining which transactions should be reported to FINTRAC as suspicious.

[Investment](#) Dealers should also review improper activities by employees or agents such as internal theft, fraud or conspiracy to manipulate a market to determine whether to report them to FINTRAC as a suspicious transaction.

7. U.N. suppression of terrorism reports and similar requirements

[Investment](#) Dealers are required to check client names against the lists of designated individuals and organizations under Canadian economic sanctions and report monthly on the results. Further information can be found on [our predecessor](#) IIROC's website under "[Sanctions Reporting System](#)".

[Investment](#) Dealers must conduct monthly reporting through ~~the~~ [our predecessor's IIROC Services](#) portal. From time to time, the federal government passes other regulations that amend the reporting requirements.

Access to the password-protected reporting system is limited to authorized persons at each firm.

[Investment](#) Dealers should have policies and procedures to ensure that client name checks are done and reports are filed on time. In addition, there must be a back-up for the person responsible for the reporting and a succession plan and training in case that person is not available.

8. Applicable Rules

~~IIROC~~[IDPC](#) Rules this Guidance Note relates to:

- Rule 1400,
- Rule 3200, Part A and
- Rule 3900.

9. Previous Guidance Notes

This Guidance replaces:

- ~~the IIROC [Anti-Money Laundering Compliance Guidance](#), and~~
- ~~[MR0294 – Amendments to Regulation 1300.1 Identification of Beneficial Owners of Non-Individual Accounts](#)~~. [GN-3200-21-007 – Anti-Money Laundering Compliance Guidance](#)



10. Appendices

Appendix A – Client Due Diligence and Large Cash Transaction Requirements

Appendix B – Background

Appendix C – Penalties for Violations of PCMLTFA

Appendix D – Classification of Violations for Determining Administrative Penalties

Appendix E – Members of FATF

Appendix F – Stock Exchanges Recognized Under Section 262(1) of the *Income Tax Act* in FATF Member Countries

Appendix G – Reference Material

Appendix H – Client Identification and Verification Requirements Comparison Chart

Appendix I – Beneficial Ownership Diagram



Appendix A: Client Due Diligence and Large Cash Transaction Requirements

Information on the PCTFMLA, the PCTFML Regulations' client due diligence and large cash transaction requirements can be found here:

- (i) FINTRAC Guidance:
- [Beneficial ownership requirements](#)
 - [Business relationship requirements](#)
 - [Compliance program requirements](#)
 - [Ongoing monitoring requirements](#)
 - [Politically exposed persons and heads of international organizations](#)
 - ~~Business relationship requirements~~ [Politically exposed persons and heads of international organizations guidance for account-based reporting entity sectors](#)
 - ~~Guidance on the Risk-Based Approach to Combatting Money Laundering and Terrorist Financing~~
 - ~~Methods to identify individuals and confirm the existence of entities~~ [Risk assessment guidance](#)
 - ~~Ongoing monitoring requirements~~ [What is a suspicious transaction report?](#)
 - ~~Politically exposed persons and heads of international organizations – securities dealers~~ [Reporting suspicious transactions to FINTRAC](#)
 - ~~Risk-based approach workbook for securities dealers~~ [Reporting terrorist property to FINTRAC](#)
 - ~~Suspicious transaction reporting guidance~~ [Money Laundering and Terrorist Financing Indicators – Securities dealers](#)
 - [Third party determination requirements](#)
 - [When to verify the identity of persons and entities – Securities dealers](#)
 - [Methods to verify the identity of persons and entities](#)
 - [Record keeping requirements for securities dealers](#)
 - [Foreign branches, foreign subsidiaries and affiliates requirements](#)
 - [Guideline 7A: Submitting Large Cash Transaction Reports to FINTRAC Electronically](#)
 - ~~When to identify individuals and confirm the existence of entities – Securities dealers~~ [Guideline 7B: Submitting Large Cash Transaction Reports to FINTRAC by Paper](#)
- (ii) ~~Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations~~ [Proceeds of Crime \(Money Laundering\) and Terrorist Financing Regulations](#)
- (iii) ~~Proceed of Crime (Money Laundering) and Terrorist Financing Act~~ [Proceed of Crime \(Money Laundering\) and Terrorist Financing Act](#)



Appendix B: More Information on Money Laundering Legislation

1. Money Laundering Under the Criminal Code

The [Criminal Code \(RSC 1985, c. C-46\)](#) establishes offences on the possession of and dealings in the proceeds of crime, money laundering and the financing of terrorism.

1.1 Possession and Money Laundering Offences

It is an offence under [section 354\(1\)](#) of the *Criminal Code* to possess any property or the proceeds of any property knowing it was obtained by or derived from the commission of an indictable offence.

[Section 462.31](#) of the *Criminal Code* addresses money laundering. It is an offence to use, transfer the possession of, send or deliver, transport, transmit, alter, dispose of or otherwise deal with any property or the proceeds of property with intent to conceal or convert the property, knowing or believing that all or a part of the property was obtained directly or indirectly by the commission of a designated offence.

[Section 462.3\(1\)](#) of the *Criminal Code* defines a designated offence, often called a predicate offence, as any indictable offence under any Act of Parliament other than offences established by regulations.

Designated offences of particular interest to [Investment](#) Dealers include:

- Offences relevant to the securities markets:
 - breach of trust,
 - fraud,
 - stock market manipulation,
 - insider trading, and
 - money laundering itself.
- Terrorism and the financing of terrorism because of special client due diligence and reporting requirements under various regulations described below.
- Bribery and corruption because of the provisions regarding secret commissions and the PCMLTFA requirements regarding politically exposed foreign persons described in this guidance.

[Investment](#) Dealers should also be aware of the wide variety of designated offences, including:

- Possession of or trafficking in scheduled substances under the [Controlled Drugs and Substances Act](#).
- Deceptive telemarketing contrary to the [Competition Act](#).
- Smuggling and evasion of duties contrary to the [Customs Act](#).
- Unlawful manufacture, packaging, stamping or sale of tobacco products contrary to the [Excise Act](#).

1.2 Penalties for Possession of the Proceeds of Crime

The maximum punishment under the *Criminal Code* for possession of proceeds of crime ~~greater than \$5,000~~ is ten years' imprisonment. ~~If the proceeds are \$5,000 or less, if the offence is considered an indictable offence. If the offence is punishable on summary conviction, the~~

~~the maximum penalty is two years' imprisonment. The maximum penalty for a money laundering conviction is 10 years' imprisonment.~~



~~Possession of less than \$5,000 of the proceeds of a crime or laundering in any amount can be prosecuted by summary conviction, in which case the maximum penalty is six months' imprisonment or a \$5,000 fine or both.~~

1.3 Terrorist Property and Financing

Knowingly dealing, facilitating transactions or providing financial services in respect of terrorist property is an offence under ~~s. 83.08(1) of the Criminal Code~~ [section 83.08\(1\) of the Criminal Code](#) punishable by a maximum of 10 years' imprisonment.

2. PCMLTFA Requirements Applicable to [Investment](#) Dealers

2.1 The Proceeds of Crime (Money Laundering) and Terrorist Financing Act

The requirements for financial institutions to implement anti-money laundering mechanisms are based on *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (RSC 2000, c. 17) (PCMLTFA).

2.2 Regulations

Most of the specific AML/ATF requirements are contained in regulations under PCMLTFA. The five regulations applicable to [Investment](#) Dealers are:

- The [Proceeds of Crime \(Money Laundering\) and Terrorist Financing Regulations](#) which govern cash transaction reporting, client due diligence, compliance and recordkeeping.
- The [Proceeds of Crime \(Money Laundering\) and Terrorist Financing Suspicious Transaction Reporting Regulations](#) which govern the reporting of completed and attempted suspicious transactions.
- The [Proceeds of Crime \(Money Laundering\) and Terrorist Financing Administrative Penalties Regulations](#) which set out FINTRAC's ability to impose administrative penalties.
- The [Proceeds of Crime \(Money Laundering\) and Terrorist Financing Registration Regulations](#) which set out the registration requirements for entities also conducting money services activities
- The [Cross-border Currency and Monetary Instruments Reporting Regulations](#) which establish reporting requirements for cross-border movements of funds and monetary instruments.

2.3 Offences and Penalties under PCMLTFA

Violations of the PCMLTFA can result in up to a \$2 million fine and 5 years' imprisonment for the most serious offences.

2.4 Administrative Penalties

Violations are classified as minor, serious or very serious. Maximum penalties are a \$1,000 fine for a minor violation, a \$100,000 fine for a serious violation and a [\\$100,000 \(individual\) or \\$500,000 \(entity\)](#) fine for a very serious violation.

~~FINTRAC can reduce the penalty by half if the violator enters into a compliance agreement with FINTRAC.~~

[Part 4.1 of PCMLTFA](#) contains more details on the procedures for [the](#) imposition of administrative penalties.



Appendix C: Penalties for Violations of PCMLTFA

This information is available on FINTRAC's [Penalties for non-compliance website](#).



Appendix D: Classification of Violations for Determining Administrative Penalties

This information is available on FINTRAC's [Administrative monetary penalties website](#).



Appendix E: Members of FATF (Financial Action Task Force)

This information is available on FATF's ~~[FATF Members and Observers](#)~~[FATF Members](#) website.



Appendix F: Stock Exchanges Recognized Under Section 262(1) of the *Income Tax Act* in FATF Member Countries

This information is available on the Department of Finance's [Designated Stock Exchanges website](#).



Appendix G: Reference Material

Financial Action Task Force Recommendations

FATF Recommendations	http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%202012.pdf https://www.fatf-gafi.org/en/publications/Fatfrecommendations/Fatfrecommendations.html
----------------------	--

Additional Guidance

FATF Money Laundering FAQ	http://www.fatf-gafi.org/faq/moneylaundering/
FATF: Risk-based Approach Guidance for the Securities Sector	http://www.fatf-gafi.org/publications/fatfrecommendations/documents/rba-securities-sector.html
FATF: Canada's measures to combat money laundering and terrorist financing	http://www.fatf-gafi.org/publications/mutualevaluations/documents/mer-canada-2016.html
FINTRAC Information for Securities Dealers containing a high level outline of requirements	http://www.fintrac-canafe.gc.ca/re-ed/sec-eng.asp
Minister of Finance – Ministerial Directives	FINTRAC website – Ministerial directives and transaction restrictions



Appendix H: Client Identification and Verification Requirements Comparison Chart

Requirement	AML Rules	<u>HROC</u>IDPC Rules
<p>Beneficial owners and beneficiaries (information firms must collect on the client)</p>	<p>Information on the ownership, control and structure of the entity</p> <p>And</p> <p>Corporations :</p> <ul style="list-style-type: none"> • Names of all directors • Names & addresses of those who own or control 25% or more of the shares of a corporation <p>Entities other than corporations:</p> <ul style="list-style-type: none"> • names and addresses of those who own or control 25% or more of the entity <p>Trusts :</p> <ul style="list-style-type: none"> • the names and addresses of all trustees and all known beneficiaries and settlors of the trust 	<p>Identity of:</p> <ul style="list-style-type: none"> • beneficial owners of more than 25% of a corporation • individuals who exercise control over affairs of a partnership or trust <p>Names & addresses of:</p> <ul style="list-style-type: none"> • all directors of a corporation • all trustees, known beneficiaries and settlors of a trust
<p>Establishing identity</p>	<ul style="list-style-type: none"> • confirm information 	<ul style="list-style-type: none"> • establish information (as per s.3206 in Appendix C)
<p>Timing (how long firms have to verify/establish/confirm the information)</p>	<p>Entities - 30 days</p> <p>Individuals – before the first transaction other than the initial deposit</p>	<ul style="list-style-type: none"> • 30 days
<p>Exceptions</p>	<ul style="list-style-type: none"> • financial entity or affiliate that 	<ul style="list-style-type: none"> • Canadian registered firm

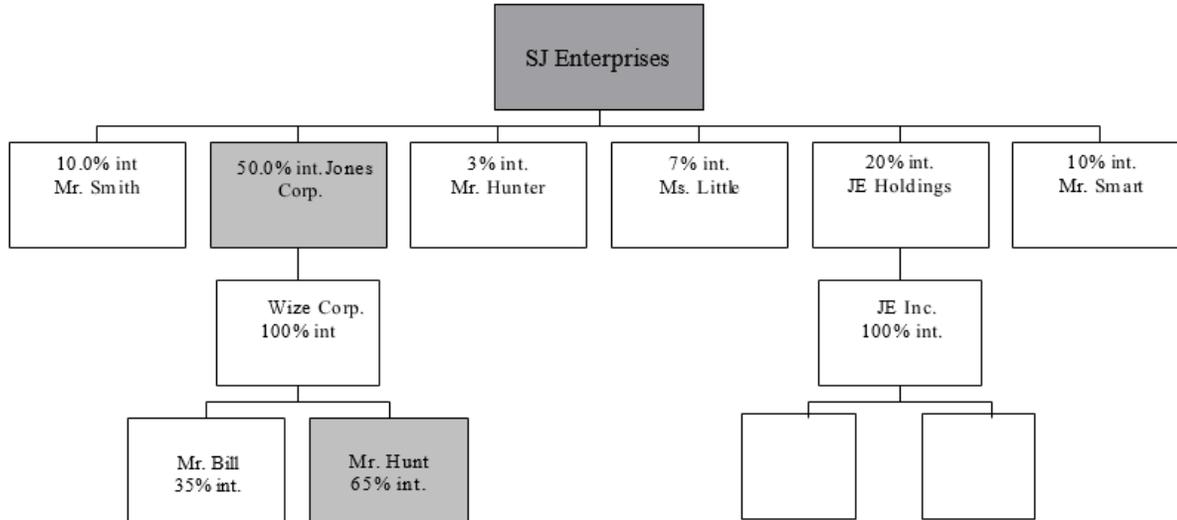


Requirement	AML Rules	HROCIDPC Rules
	<p>carries banking, life insurances or securities activities (bank, credit union, caisse populaire, trust and loan companies)</p> <ul style="list-style-type: none"> • registered plans • regulated pension fund • securities dealer • investment fund • life insurance company • public body or large publicly-traded corporation 	<ul style="list-style-type: none"> • Canadian investment fund • Canadian financial institution • Schedule III bank • public body or large publicly-traded corporation <p>(Note: the Rule Amendments clarify that foreign financial entities are not exempt.)</p>



Appendix I: Beneficial Ownership Diagram

This diagram shows the calculation of percentage indirect ownership in a multi-level ownership structure:



<i>Individual</i>	<i>Ownership Calculation (of SJ Enterprises)</i>	<i>Is Beneficial Ownership Information Required?</i>
Mr. Bill	$0.35 \times 1.00 \times 0.50 = 0.175 = 17.5\%$	No
Mr. Hunt	$0.65 \times 1.00 \times 0.50 = 0.325 = 32.5\%$	Yes
Ms. Smith	$0.40 \times 1.00 \times 0.20 = 0.080 = 8.00\%$	No
Ms. Best	$0.60 \times 1.00 \times 0.20 = 0.120 = 12.0\%$	No
Mr. Smith	10.0%	No
Mr. Hunter	3%	No
Ms. Little	7.0%	No
Mr. Smart	10%	No

*Beneficial ownership information may be required if the client is high risk or if there are any red flags.