



BACK TO THE FRONT

CPAs are dealing with ever-changing tactics in the battle against financial crime and money laundering. But as geopolitical tensions continue to rise, protecting the integrity of financial systems might be more important than ever before.

PHOTOGRAPH BY ISTOCK

BY RENÉE SYLVESTRE-WILLIAMS

Warfare.

The word conjures soldiers, weapons and fields of battle strewn with wreckage. Today's warfare has evolved to include financial manipulation as a key strategy to hurt both individuals and companies and may even destabilize countries' political systems.

Increasingly, these new battles are being waged from within our borders. Criminal Intelligence Service Canada estimates that \$45 billion to \$113 billion is laundered each year. Canada has a reputation as a haven for the global elite to hide money, known as snow-washing, but also is an attractive place for criminals to launder money because of the secrecy behind its corporate registration and federal and provincial systems.

And there's no doubt that money laundering is an international problem. It's estimated by the United Nations Office on Drugs and Crime that two to five per cent of the global gross domestic product is laundered annually—US\$2 trillion.

"The appeal of financial crime is, quite simply, that it pays," says Jeremy Weil, CPA and vice-president of the Financial Action Task Force (FATF). He says that until the risk-reward calculus shifts worldwide, this is always going to be an uphill battle for governments. "A couple of years ago, the statistic that the former [FATF] president Raja Kumar would cite was that only one per cent of criminal proceeds are being confiscated worldwide."

The consequences of that are devastating. That money goes to funding terrorists, arms dealers and drug dealers, and geopolitical conflicts such as the war in Ukraine.

There are many defences against digital and economic warfare, and CPAs can be valuable allies. "CPAs don't necessarily realize how important they are in the fight against financial crime," Weil says.

A CPA's expertise can be valuable to help companies navigate a complex web of international regulations. They're now essential to ensure businesses remain compliant, preventing them from inadvertently supporting illegal activities or terrorist entities that can lead to the destabilization of countries and can eventually threaten democracies.

That means that CPAs are living in interesting times, says Michele Wood-Tweel, FCPA and vice-president, regulatory affairs at CPA Canada.

“If you look back several years, consider that in London, England, a lot of Russian money found its way into real estate,” she says. “It’s not clear whether people knew it then or realized later, but there was a whole lot of money laundering.” That, she says, is one of the notable examples of one country strategically and purposely using another country for essentially a criminal process.

“When Russia invaded Ukraine, there was recognition in the [media] that England, as a part of this, had allowed some of this to happen because, without them, Russia wouldn’t have had the money to do many of the things they were going to do to Ukraine,” Wood-Tweel adds.

She points out that Canada has also been affected. The Commission of Inquiry into Money Laundering in British Columbia (known as the Cullen Commission) found that money was being

5%

Estimate of the percentage of global GDP that is laundered every year

laundered through B.C. casinos. In turn, the Canadian government has continued its efforts to strengthen Canada’s Anti-Money Laundering and Anti-Terrorist Financing (AML/ATF) Regime to address evolving risks and vulnerabilities for money laundering and terrorist financing.

In a statement, the Consultations and Public Affairs Branch for the Department of Finance Canada said that Canada has a robust and comprehensive AML/ATF Regime. “[This] promotes the integrity of the financial system and the safety and security of Canadians. It supports combating transnational organized crime and is a key element of Canada’s counter-terrorism strategy... The AML/ATF Regime is operated by 13 federal Regime partners...coordinated by the Department of Finance Canada.” Canada also works in close collaboration with global partners,

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including Five Eyes partners, to combat money laundering and terrorist financing threats.

“I think it puts us into a place where the financial system and what we’re all accustomed to working with (in terms of businesses and CPAs) could be in the throes of geopolitical tensions,” says Wood-Tweel.

Unfortunately, the systems that help money move around the world can also be used to conceal the nature of the parties you’re doing business with, and also to conceal whether bad money is making its way through the financial system, says José Hernandez, a CPA and CEO of Ortus Strategies. It’s an always-evolving process, he says, citing the movement of Russian money into London.

“We may sanction one party, but one party may be associated with a hundred different legal entities directly or indirectly.”

Hernandez says the CPA’s role starts with strong due diligence controls including doing an intake on suppliers and third parties. He adds that looking at the financial and technical risks just isn’t enough.

“Now you’re asking, ‘Who is your owner? Who are your directors? Who are the ultimate beneficiaries of funds and profits of this enterprise?’ That’s one type of question.” The second question to ask is about the use of subcontractors and performing due diligence on them.

Wood-Tweel says that’s an area of increasing risk in today’s world, simply because businesses are dealing with other countries and parties and with third-party businesses.

“If some of those transactions are happening in countries where there are degrees of concern because of the way they perform internationally, the risk is even higher,” she says. “The bad actors are going to do everything to keep you away from the information. So, they’re going to start using third parties and other companies. You’re going to see transactions where it’s company to company to company, as opposed to [from] one company to the next.”

Hernandez adds that CPAs also need to look for more subtle, unusual transactions.

Examples of this might be a request to change purchasing from one entity or country to another because the new owners are based in the new country or own the new entity. Another instance might be a request to divert money to a new entity because the owners put a holding company there. Or a new consultant is introduced to the pipeline.

“[They may ask,] Would you mind taking five per cent of our bill and sending it to this consultant?” Hernandez says. “It’s unusual because you’re saying, ‘Wait a minute, my purchase orders are with this party. Why am I sending two transfers to different parties?’” Hernandez says in his



Leaders of BRICS nations, including Russia’s Vladimir Putin, attend the 2024 BRICS Summit



In 2022, Commissioner Austin Cullen’s inquiry found China had been laundering money through B.C. casinos



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experience, there is often a correlation between the unusual and the risk of becoming corrupt.

“That’s where you have to understand the nature of the business, what you’re doing, where you’re buying,” he says. “Whenever things come up, whether different parties [are] involved, different purchase orders, different owners, different types of activities. This is where you need to raise your hand and say, ‘What is it exactly?’”

Hernandez adds, “One of the good practices is, know your risks...Not just when you enter into a relationship, but monitor it during the time of the relationship, and don’t wait until there’s a disaster, because by then, of course, you will get to the risk, but it’s a bit too late.”

Global business can move fast, but Wood-Tweel says a CPA can be the sober second thought throughout a business’s transaction lifecycle.

“I think, in practice, you have to be really quick at what you’re doing in order for your organization to be well served,” she says. “You’re going to have to move in rhythm with the organization. But I think if you start going down that transaction process and identifying red flags, you’ve got to be elevating those red flags and getting the attention you need in the organization.”

Weil adds that whether a CPA serves as “chief anti-money laundering officer” or works in internal control or in virtually any other key financial role in a company (or for a company), the main thing they need to remember is how important they are in the fight against financial crime in relation to the role they play in the organization.

“You might not wake up every morning and put your pants on and think, *I’m going to protect the integrity of the financial system today*, but depending on your role, that may very well be the case.” ♦



A GLOBAL PERSPECTIVE

Canadian Jeremy Weil, CPA and vice-president of the Financial Action Task Force (FATF), is currently serving as Department of Finance Canada’s senior director of international financial crime policy and sanctions.

When Weil spoke with *Pivot*, he was just back from a trip visiting the Action Group against Money Laundering in Central Africa, one of the nine regional FATF groups in the organization. One of his personal priorities has been to try to better understand the technical assistance needs of small and developing members across the network, and to try to help match them up with providers of technical assistance bilaterally with Canada, or with big multilateral organizations like the IMF, the World Bank and the United Nations.

The FATF is a lean organization, made up of 40 international members, though it suspended the membership of the Russian Federation in 2023 due to its action against Ukraine. That leanness means that the member-lateral organization’s strength when tackling big challenges is really the combined human resources of its members.

One of his favourite things working with FATF is learning from the different regions. “I can go to the Caribbean and learn from the attorney general of Montserrat, and go to Nigeria to sit down and talk about members who are subject to sanction and learn about the geopolitics of it and how you ensure you maintain a strong anti-money laundering and counter-terrorist financing (AML/CFT) regime in that context.”

For Weil, the learning experiences can be taken back to the FATF and used to sensitize the organization to the global network’s different needs and capacities. “The FATF is not going to water down its standards, but we do need to be mindful that not every jurisdiction in the world has the same capacity, or the same ability to engage,” he says. “Providing required support to some of the jurisdictions is one of the big appeals of the job.”