



Frequently Asked AML/ATF Questions

October 29, 2024

A) Politically Exposed Person

1. Do all clients need to sign a PEP declaration?

Yes, under FINTRAC guidelines, every client must complete a PEP declaration, even if they are not a Politically Exposed Person. This is part of the due diligence process to assess potential risks of corruption. The signed PEP must be kept on file for a minimum of 5 years, regardless if deal closes or not.

2. What do I do if a client is identified as a PEP?

You must perform enhanced due diligence, which includes understanding the source of the client's funds, obtain additional forms of identification beyond the basic KYC (Know Your Client) requirements. This might include a **certified copy of a passport**, recent utility, or property tax bills, or a second government-issued ID to verify the client's identity. In addition, complete sanctions list screening, ongoing monitoring, and potentially filing a Suspicious Transaction Report (STR) only if necessary.

3. How do I generate a PEP Declaration in Velocity?

Click [here](#) for instructions on how to generate a PEP declaration in Velocity.

4. Who is considered a domestic PEP?

A domestic PEP is someone who, within the last 5 years, has held a specific office or position in the Canadian federal, provincial, territorial, or municipal government. These positions include;

- member of the Senate or House of Commons or member of a legislature;
- deputy minister or equivalent rank;
- ambassador, or attaché or counsellor of an ambassador;
- military officer with a rank of general or above;
- president of a corporation that is wholly owned directly by His Majesty in right of Canada or a province;
- head of a government agency;
- judge of an appellate court in a province, the Federal Court of Appeal or the Supreme Court of Canada;
- leader or president of a political party represented in a legislature; or mayor.

Click [here](#) for more information.



5. Who is considered a foreign PEP?

Foreign PEPs are persons who hold or have held important offices or positions in or on behalf of a foreign state. When a business determines that a person is a foreign PEP, they remain a foreign PEP forever (including upon death). These offices or positions include:

- head of state or head of government;
- member of the executive council of government or member of a legislature;
- deputy minister or equivalent rank;
- ambassador, or attaché or counsellor of an ambassador;
- military officer with a rank of general or above;
- president of a state-owned company or a state-owned bank;
- head of a government agency;
- judge of a supreme court, constitutional court or other court of last resort; or
- leader or president of a political party represented in a legislature.

Click [here](#) for more information.

6. Who is a family member of a PEP?

PEP family members include spouses or common-law partners, biological or adoptive children, parents, the parents of spouses or common-law partners, and siblings.

7. How do businesses determine if someone is a domestic PEP, or a family member or close associate of a domestic PEP?

Under the PCMLTFA and associated Regulations, as applicable, businesses must take [reasonable measures](#) to determine whether a person or certain family members or close associates are domestic PEPs or HIOs. Reasonable measures could include asking the person, conducting open-source searches, retrieving information already available or consulting commercially available information.

8. Why are family members or close associates of domestic PEPs or HIOs covered by legal requirements?

Family members and close associates of domestic PEPs and HIOs are covered under the PCMLTFA and associated Regulations because domestic PEPs or HIOs looking to distance themselves from money they receive from illegal activities can use them to carry out (knowingly or unknowingly) illicit financial activity. They are potential targets because they can more easily avoid detection.



B) IDV – Identification Verification

Simply receiving a copy of someone's ID is no longer sufficient under FINTRAC because mortgage brokers must now conduct additional verification steps to ensure the authenticity of the ID and the client's identity.

1. What are the 5 FINTRAC approved methods to identify a person?

- 2.1 [Government-issued photo identification method](#)
- 2.2 [Credit file method](#)
- 2.3 [Dual-process method](#)
- 2.4 [Affiliate or member method](#)
- 2.5 [Reliance method](#)

2. What if I witnessed my clients ID in-person? What do I need to do?

If verifying ID in person, make sure the ID is government-issued with a photo. Confirm that the photo matches the borrower, the ID is not expired, and it appears authentic. Also, verify that the name, address, and date of birth match the details on the mortgage application.

Lastly, document the following information in your file:

Person's name	Date/Time when you verified
Type of document	Document number
Province/State & country that issued the document	Expiry date

3. What are the acceptable forms of Government issued ID?

Click [here](#) to see list of acceptable forms of government issued ID.

4. How do I use a Credit Bureau (CB) report as a form of identification?

To use the CB method for ID Verification, ensure that all the following conditions are met:

- a) Be current and valid.
- b) Come from a Canadian credit bureau (foreign reports are not acceptable).
- c) In existence for at least **3 years**.
- d) Contains more than one tradeline.
- e) The name, address, and date of birth **must match** the person being identified.

Click [here](#) for more details on using Credit reports for Identification.



5. What if I choose to use ID Verification (IDV) technology, such as Fastkey?

IDV technology will provide a report that will indicate if ID was successfully verified. A copy of this report must be retained in your file. All documents must be retained for a minimum of 5 years, regardless of whether your mortgage transaction closes.

6. How do I generate FASKEY IDV through Velocity?

Click [here](#) for instructions on how to generate IDV Fastkey through Velocity. Cost is approximately \$2.50 per request.

7. What if I wanted to use the Dual Method to verify my borrower's ID?

When verifying someone's identity using the dual-process method, you must collect two pieces of information from two separate, reliable sources. The key is that the two pieces of information need to come from different categories and sources.

You will need to confirm 2 of the following 3 categories of information:

1. The person's name and address.
2. The person's name and date of birth.
3. The person's name and proof they have an account (like a bank account, credit card, or loan) with a financial institution.

The Acceptable Reliable Sources are:

1. Government agencies (federal, provincial, municipal).
2. Crown corporations.
3. Banks or other federally regulated financial institutions.
4. Utility companies (electricity, water, etc.).



Examples of Compliant **Dual-Process** Verifications:

1. **Name and Address + Name and Date of Birth, Example:**

- A utility bill with the person's name and address + A government-issued document (like a birth certificate) showing their name and date of birth. OR

2. **Name and Address + Name and Financial Account Example:**

- A Property Tax Bill confirming name and address + A bank statement showing the person's name and financial account.

OR

3. **Name and Date of Birth + Name and Financial Account Example:**

- A birth certificate showing the person's name and date of birth + A credit card Bank statement showing their name and confirming they hold an account with the credit card provider.

Important Points:

- **Different Sources:** The two pieces of information must come from two different sources. For example, you cannot use two documents from the same bank.
- **Matching Information:** The information you gather must match what the person has provided. For example, the name, date of birth, or address must be consistent.
- **No Typos or errors:** Minor typos (like a misspelled name) may be acceptable, but major errors (like a wrong date of birth) means the information cannot be used.

8. What if I view my borrower's ID through a video conference or another type of virtual application? Is this sufficient to be compliant with FINTRAC?

It's not enough to simply view the ID through a video call. You must also use technology capable of authenticating the government-issued ID, ensuring that it is **authentic, valid, and current**.

According to FINTRAC, the technology used should be able to verify features like:

- **Security markers** (e.g., holograms, watermarks).
- **Expiry date**.
- **Consistency with the issuing authority's standards** (e.g., checking against a database or algorithm for that type of ID).



Several third-party ID verification software tools are widely used in the industry, which apply advanced features such as facial recognition, AI, and document authenticity checks. However, FINTRAC leaves the choice of technology to the discretion of reporting entities, provided they meet the regulatory requirements. Please check with your brokerage Policies & Procedures.

The software you use should have these features:

- **Scanning of government-issued IDs.**
- **Cross-referencing databases** to validate the ID.
- **Real-time checks** to ensure that the photo and security features of the document match the official specifications.

9. What if my borrower is a Corporation? How do I verify ID for a Corporation or Entity? (e.g., commercial mortgage transactions)

Use the following Confirmation of Existence method to verify a corporation:

- a certificate of incorporation.
- a record that has to be filed annually under provincial securities legislation; **or**
- the most recent version of any other record that confirms the corporation's existence and contains its name and address and the names of its directors, such as a certificate of active corporate status, the corporation's published annual report signed by an audit firm, or a letter or notice of assessment for the corporation from a municipal, provincial, territorial, or federal government.
- You may obtain a corporation's name and address and the names of its directors from a publicly accessible database, such as a provincial or federal database like the [Corporations Canada database](#), or a corporation search and registration service through subscription.

To verify the identity of an **entity other than a corporation**, you may refer to:

- a partnership agreement.
- articles of association; **or**
- the most recent version of any other record that confirms its existence and contains its name and address.

For more information on verifying identity of a corporation or entity click [here](#).



C) AML Risk Assessment

1. What factors are considered in borrower risk assessments?

Risk is assessed based on several factors, including:

- Whether the borrower is a politically exposed person (PEP),
- Location of property, e.g., high crime area
- The borrower's occupation, business activities and transaction patterns,
- Involvement with high-risk industries or occupations, and
- Connection to high-risk countries.

Borrowers are classified as **low**, **medium**, or **high** risk depending on these factors.

2. How do I generate an AML Borrower Risk Assessment in Velocity?

Click [here](#) to watch video on how to generate your **AML Risk Assessment Questionnaire** in Velocity.

3. What are some examples that would be considered Suspicious activity when trying to Identify person or entities?

- There is an inability to properly identify the client or there are questions surrounding the client's identity.
- The client refuses or tries to avoid providing information required, or provides information that is false, misleading, vague, or difficult to verify.
- The identification document presented by the client cannot be authenticated.
- There are inconsistencies in the identification documents provided by the client, such as name, address, date of birth or phone number. Eg. Credit bureau and ID do not match name, address or date of birth.
- Client produces seemingly false information or identification that appears to be counterfeited, altered or inaccurate.
- Client displays a pattern of name variations from one transaction to another or uses aliases.
- Client alters the transaction after being asked for identity documents.
- The client provides only a non-civic address or disguises a post office box as a civic address for the purpose of concealing their physical residence.
- Common identifiers (e.g., addresses, phone numbers, etc.) are used by multiple clients purchasing properties that do not appear to be related.



4. What are some examples that would be considered Suspicious activity when assessing borrower's behaviour?

- Client makes statements about involvement in criminal activities.
- Evidence of untruthfulness on behalf of the client (e.g., providing false or misleading information).
- Client exhibits nervous behaviour.
- The client refuses to provide information when required or is reluctant to provide information.
- Client has a defensive stance to questioning.
- Client presents confusing details about the transaction or knows few details about its purpose.
- Client avoids contact with reporting entity employees.
- The client refuses to identify a source of funds, or provides information that is false, misleading, or substantially incorrect.
- The client exhibits a lack of concern about higher-than-normal transaction costs or fees.
- Client makes enquiries/statements indicating a desire to avoid reporting or tries to persuade the reporting entity not to file/maintain required reports.
- Insufficient explanation for the source of funds.

5. Which countries are considered high risk for AML purposes?

High-risk countries for Anti-Money Laundering (AML) and Anti-Terrorist Financing (ATF) are identified by international organizations like the **Financial Action Task Force (FATF)**. These countries are grouped into:

- **High-Risk Jurisdictions Subject to a Call for Action (Black List):**
These countries have serious deficiencies in their ability to combat money laundering and terrorist financing. As of 2024, this includes:
 - **North Korea**
 - **Iran**
 - **Myanmar**
- **Jurisdictions Under Increased Monitoring (Grey List):**
These countries are working to improve their AML/ATF systems but still have significant deficiencies. Examples include:
 - **Kenya**
 - **Nigeria**
 - **South Africa**
 - **Philippines**
 - **Yemen**



Click here to review [FATF](#) Black and Grey lists.

- In addition, Canada also follows the [Canadian Sanctions List](#), which includes countries under economic sanctions, such as:
 - **Russia**
 - **Syria**
 - **Belarus**
 - **Venezuela**
 - **Sri Lanka**

For more information, you can refer to **FINTRAC** and **FATF** guidelines on these high-risk and monitored jurisdictions. [Click](#) here for more information.

D) AML Sanctions List Screening

1. Do all borrowers require sanction list screening?

YES, all borrowers are required to be screened.

2. How do I generate a Sanctions List Screening to ensure my clients names are not on any sanction's lists?

Click [here](#) to learn how to generate your **AML Sanctions Screening** in **Velocity**.

3. What if my borrower's name is on a sanctions list?

If your borrower's name appears on a sanctions list, you must immediately **STOP** the transaction and notify your **AML compliance officer**. According to FINTRAC regulations, you are required to submit a Suspicious Transaction Report (STR) and may also need to report to other authorities depending on the sanctions involved. You should not proceed with the mortgage application or any related financial dealings until further instructions are received from the compliance team and relevant authorities.

E) Record Keeping

1. How long must I keep client records?

FINTRAC requires that all records, including identification and transaction documents, be kept for at least five years from the date of the transaction.



2. What kind of records do I need to keep?

You must keep client ID verification records, transaction details, and any other documentation used in the risk assessment process, such as PEP declarations, sanctions screenings and any notes.

F) Deal Related Questions

1. When does a mortgage client become subject to AML Requirements?

A mortgage client becomes subject to **AML requirements** when a **business relationship** is established. For mortgage brokers, this typically occurs when a client engages in a financial transaction that requires **identity verification**, such as submitting a full mortgage application or conducting a transaction where due diligence is necessary.

2. Are pre-approvals considered mortgage clients if I don't have a subject property yet?

In the case of **pre-approvals**, if you are required to pull a **credit report**, this would be considered the beginning of a formal business relationship. Even though pre-approvals are often rate holds, pulling a credit report involves a financial transaction and **identity verification**, which triggers AML compliance. This means that the client is now subject to full AML requirements, including **Know Your Client (KYC)** procedures, **Sanctions list screening**, **risk assessments and PEP declaration**. Please review your Brokerage Policies and Procedures to ensure you are following your brokerage policies when it comes to Pre-Approvals.

3. When does the client relationship end and ongoing monitoring obligations no longer apply?

The client relationship ends, and ongoing monitoring obligations no longer apply, when the mortgage business relationship has been inactive for **five years** after the last transaction that required identity verification (such as the closing of the mortgage). If the client pays off their mortgage or no longer engages with the broker, the business relationship is considered to have ended, and AML monitoring can cease **five years** after the final transaction. During this period, brokers are still required to file any **Suspicious Transaction Reports (STRs)** if suspicious activities are detected, even after the mortgage has been paid off or the relationship is no longer active.

4. What if your client took a 3-year mortgage term, and did not come back for renewal? Are you still required to monitor for 5 years?

If you helped a client secure a 3-year mortgage term and do not hear from them at the end of that term, the business relationship is **not considered automatically ended**. According to FINTRAC guidelines, the **5-year rule** for record-keeping and ongoing monitoring starts when there has been no contact or new transaction with the client for **five consecutive years**. This means that even though the mortgage term ended, the client relationship will only



be considered ended after **five years of inactivity** following the last transaction (in this case, the final approval and funding of the mortgage).

Therefore, if at the end of the 3-year term the client does not engage with the brokerage for a renewal or new mortgage, the **monitoring period** for that business relationship would continue until the five-year mark from the last transaction date. So, there would only be 2 years remaining of required monitoring.

4. If a private lender does not require proof of down payment documentation, is this a violation of FINTRAC requirements? What should a broker do in this case?

Under **FINTRAC** and the (**PCMLTFA**), mortgage brokers are required to conduct **Know Your Client (KYC)** and **source of funds** due diligence, regardless of whether the private lender asks for down payment documentation or not. This includes ensuring that the funds used for the down payment are from legitimate sources and not derived from criminal activities.

Here's how you can address this:

- a) Request **documentation** verifying the source of the down payment, even if the lender does not require it. This could include:
 - Bank statements showing the origin of the funds,
 - Confirmation of sale of assets (e.g., property or investments),
 - A gift letter if the down payment is from a family member.
- b) Document all communications, review the source of the funds, and keep records of your risk assessment for the file.
- c) If there is any indication of suspicious activity (e.g., unexplained large cash deposits, funds from an unverified offshore account), brokers must advise their AML Officer to file an **STR** with FINTRAC, regardless of the lender's requirements. The STR process is confidential, and the client should not be informed about the report being filed.

5. What happens if a consumer's ID expires during the term of the mortgage?

If a consumer's ID expires during the mortgage term, it does not affect the original identity verification, as long as the ID was valid when initially verified. FINTRAC requires the ID to be current at the time of verification, and the expiry date must be recorded. You don't need to update the ID unless a new transaction occurs, like a renewal or refinance, which may require re-verification with valid ID to comply with AML and KYC obligations.



6. Pre-Approvals approved prior to Oct 11th, and now clients found home after Oct 11th, is this now a new deal and subject to all AML requirements?

Yes, if clients found a home after October 11th, this is considered a **new transaction** and is subject to all **AML** requirements in line with **FINTRAC** guidelines, regardless of the pre-approval date. Pre-approvals are often rate holds and typically do not involve the collection of full client and transaction details, such as property information and down payment sources.

Given that the **purchase agreement** and full application are completed after October 11th, the transaction must comply with the new AML requirements. *Note: Please check your brokerage Policies and Procedures.

7. What if my client's place of origin is considered a high-risk country, like Iran, however they are a Canadian Citizen?

While clients from Iran are flagged as high risk due to Iran being a sanctioned country under Canadian law, this doesn't mean all Iranian clients must automatically be classified as high risk or reported to FINTRAC based solely on nationality.

Key Points:

1. **Use a Risk-Based Approach:** FINTRAC requires you to assess clients based on multiple factors, not just nationality, including:
 - Client's background and legitimacy,
 - How long have they been in Canada as a Canadian Citizen?
 - Source of funds, where is the down payment coming from?
 - Transaction patterns, and
 - Overall behavior during the mortgage process.

If all due diligence has been completed, including ID verification, income and financial background checks, sanctions list screening, the file can be classified as medium risk, even if the client is from a high-risk country like Iran.

2. **Documentation:** If you classify the client from a high-risk country, as medium or low risk, ensure you have thorough documentation justifying this, including details of ID verification, source of funds, and notes on the client's risk reassessment.



3. **Reporting:** You don't need to report every client from high-risk countries to FINTRAC unless there is suspicious activity. An STR is only required if there are reasonable grounds to suspect money laundering or terrorist financing. Or if you are uncertain, then better to report it than not.
4. **Sanctions Check:** Ensure the client isn't on any sanction's lists. Velocity automatically runs sanctions checks when credit is pulled, providing an extra layer of compliance in accordance with FINTRAC guidelines. If client is on a sanctions list, then you must stop the transaction and report it to your AML officer immediately.

6. What should I do if I find something suspicious on a mortgage file?

If you identify suspicious activity on a mortgage file, start by completing your **AML Risk Assessment** and gathering as much relevant information as possible. Report these findings immediately to your **AML Compliance Officer** within your brokerage, as only they are authorized to submit a **Suspicious Transaction Report (STR)** to FINTRAC. Ensure you keep all details confidential and do not discuss them with the borrower.