AML 101 for Dealers in Precious Metals and Stones (DPMSs)

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Outlier Compliance Group

For

Canadian Jewellers Association (CJA)

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About Us

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I do not represent any government or government agency (including: FINTRAC). Nothing that I say should be interpreted as an official government statement or position.

If you have questions about a particular situation or company that involves people's names or confidential information, contact us instead of asking in a public forum.

Information should be free. A copy of this presentation will be made available. We'd love to be credited for our work, but when we're not, we probably won't notice, and we won't send an army of lawyers.

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PART 1:
AML & CTF

THE BASICS

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What is Money Laundering?

- The process of taking money obtained by committing a crime and disguising the source to make it appear legitimate.
- Under the Criminal Code of Canada, it is illegal to launder money or to knowingly assist in laundering money.
- Under the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA) and Regulations, you must take steps to be sure that your business is not used to launder money and if you suspect that money laundering may be taking place, you must report it.

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How is Money Laundered? An Example

Placement: Illicit funds (often in cash) enter the financial system.

E.g., A criminal uses cash or virtual currency to purchase a gold bar.

Layering: Funds are moved between accounts making the trail difficult to follow. The illicit funds may be mixed with funds from other legitimate sources.

E.g., The gold bar may be transferred to a custodian in the name of a nominee to separate the ownership from the criminal. Eventually, the gold is sold, and the nominee is paid by cheque or wire.

Integration: Funds that appear to be legitimate are used to purchase goods, services, investments and real estate.

E.g., The nominee purchases property, automobiles, boats, etc. that appear to be legitimate and ultimately benefit the criminal.

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What is Terrorist Financing?

- Terrorism involves attempts to influence or intimidate a government or the public at large through violent or illegal means or means that are intended to induce fear or panic.
- Terrorist financing is any act or omission that helps to fund terrorism.

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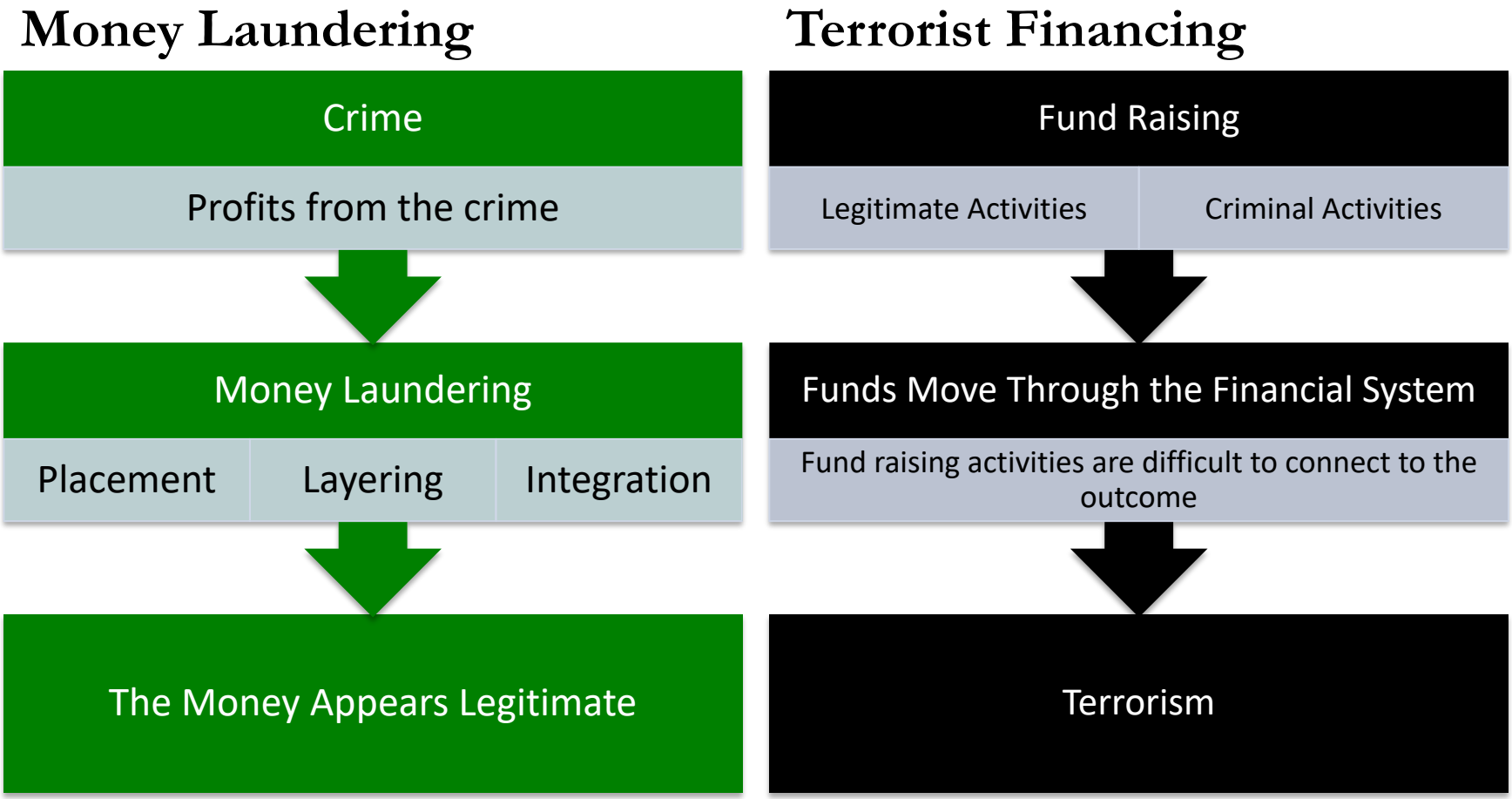
What's the Difference?



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What is Sanctions Evasion?

"An offence arising from the contravention of a restriction or prohibition established by an order or a regulation" related to Canadian sanctions lists.

Expands the definition to cover all Canadian sanctions legislation including the Special Economic Measures Act, the United Nations Act and the Justice for Victims of Corrupt Foreign Officials Act (Sergei Magnitsky Law).

This is now under FINTRAC's purview.

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What is a DPMS?

You are considered to be a dealer in precious metals and stones (DPMS) because you buy or sell precious metals, precious stones, or jewellery.

As a DPMS, you must comply with Canadian laws.

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Are You a DPMS?

- I do not accept cash but do sell jewellery and watches.
- I am a traveling salesperson representing a watch company. I also have a small line of jewellery that I wholesale for and sell to retailers.
- I sell watches, some, not very many, contain precious metals and sometimes diamonds.
- I mainly do jewellery and watch repairs.
- I am a manufacturer with some sales to friends and family.

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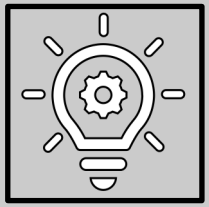
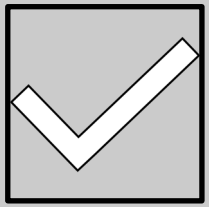
What is FINTRAC?



The Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) is Canada's financial intelligence unit and our regulator



You submit reports to FINTRAC, and they have the right to examine you to test your compliance with Canadian requirements.

All FINTRAC correspondences and inquiries should be passed immediately to the Compliance Officer.

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FINTRAC Examinations

Under the PCMLTFA, FINTRAC is mandated to conduct on-site and desk examinations for the purpose of assessing compliance.

What will be examined

- Implementation of a compliance program;
- Reporting of all required transactions;
- Implementation of client identification;
- Record keeping requirements; and
- Third party determination.

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FINTRAC Assessment Tools

INFORMATION REQUESTS – PRIMARILY FOR RECORD-KEEPING AND DATA COLLECTION

COMPLIANCE SELF-ATTESTATIONS – REVIEW OF POLICIES, PROCEDURES, AND UPDATES

SUPERVISORY RISK QUESTIONNAIRES – ASSESS OVERALL RISK PROFILE (E.G., GEOGRAPHY, OPERATIONS)

MONITORING MEETINGS – GENERAL OR TAILORED TO SPECIFIC COMPLIANCE ISSUES

SCORECARDS – MEASURE REPORTING QUALITY, TIMELINESS, AND BENCHMARKING AGAINST PEERS

ACTION PLANS – OUTLINE REMEDIATION STEPS AND TIMELINES

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What Happens if You Don't Comply?

FINTRAC may levy administrative monetary penalties (AMPs) and disclose cases of non-compliance.

Criminal penalties and AMPs may include the following:

- Failure to report suspicious transactions: up to $2 million and/or 5 years imprisonment.
- Failure to report a large cash transaction or an electronic funds transfer: up to $500,000 for the first offence, $1 million for subsequent offences.
- Failure to meet record keeping requirements: up to $500,000 and/or 5 years imprisonment.
- Failure to provide assistance or provide information during compliance examination: up to $500,000 and/or 5 years imprisonment.
- Disclosing the fact that a suspicious transaction report (STR) was filed, or disclosing the contents of such a report, with the intent to prejudice a criminal investigation: up to 2 years imprisonment.

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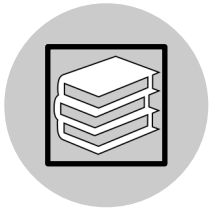
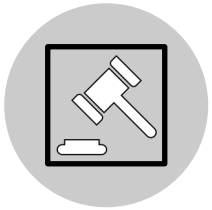
AMPS

FINTRAC RELEASED AN ASSESSMENT MANUAL AND POLICY IN 2019

March 2026 AMPS WERE INCREASED 40X



MANDATORY PUBLICATION OF ALL AMPS



29 AMPS ISSUED IN 2025. TOTAL $200M

Violation Type	Penalty
Minor violation	$1 to $40,000 per violation
Serious violation	$1 to $4,000,000 per violation
Very serious violation	$1 to $4,000,000 per violation – individual $1 to $20,000,000 per violation – entity

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DPMS Sector Penalties

2025: 2 DPMS AMPs were imposed an administrative monetary penalty of **$132,000 and 264,000.**

- Failure to develop and apply written compliance policies and procedures.
- Failure to assess and document the risk of a money laundering or terrorist financing.
- Failure to develop and maintain a written, ongoing compliance training program.
- Failure to institute and document the prescribed effectiveness review.
- Failure to submit suspicious transaction reports.

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PART 2:
AML & CTF

OBLIGATIONS

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AML & CTF Laws and Regulations

Proceeds of Crime (Money Laundering) and Terrorist Financing Act & enacted regulations

Additional guidance is issued by FINTRAC

Criminal Code of Canada

Ministerial Directives

Sanctions

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Ministerial Directives

- Currently, there are three Ministerial Directives (MD) with the newest one issued related to Russia.
- Under the MD, a DPMS must treat every financial transaction originating from or bound for Russia, regardless of its amount, as a high-risk
- Related to the most recent MD, under Special Economic Measures (Russia) Regulations, it is prohibited to import Russian diamonds equal or greater than 1 carat (processed or produced).

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Sanctions Evasion

- Consolidated Canadian Autonomous Sanctions List,
- Special Economic Measures Act,
- Justice for Victims of Corrupt Foreign Officials Act,
- United Nations Act, and
- United Nations Security Council Consolidated List.

Canadian sanctions place restrictions on the activities permissible between persons in Canada or Canadians outside Canada and foreign states, individuals, or entities.

Sanctions target specific countries, organizations, or individuals and can encompass a variety of measures, including restricting or prohibiting trade, financial transactions or other economic activity between Canada and the target state or its enablers.

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Your Responsibilities Under Canadian Law

Compliance Program

- Compliance Officer
- Policy and Procedures
- Risk Assessment
- AML Compliance Effectiveness Review
- Training

Operations

- Reporting
- Recordkeeping
- Identifying Customers
- Customer Risk
- Transaction Monitoring (including sanctions screening)

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Keeping Your Program Up To Date

What is it?	When do updates happen?
Compliance Officer Appointment	Only when there is a change of Compliance Officer.
Policy and Procedures	At least once a year*
Risk Assessment	At least once a year*
Training	At least once a year*
Effectiveness Review	At least every two years.

*Updates are required more often if there are changes to the law or your business model. If there are no major changes, you keep a record stating that the documents were reviewed with no major changes made.

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Compliance Effectiveness Reviews

- A compliance effectiveness review is an evaluation that must be conducted every 2 years to test the effectiveness of the elements of your compliance program and operations.
- The purpose of a compliance effectiveness review is to determine whether your compliance program has gaps or weaknesses as it relates to your AML and CTF obligations.
- Your review should be conducted by someone who is knowledgeable of your requirements under the Act and associated Regulations.
- It should not be conducted by someone who is directly involved in your compliance program activities.
- Your Bank may ask for evidence of such being completed.

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Recordkeeping & Reporting

Any documentation related to your AML and CTF Program and Operations must be maintained for at least five (5) years (federal).

If you aren't sure whether documentation should be destroyed, please contact the Compliance Officer.

You must also report certain transactions to FINTRAC, and in some cases, other agencies.

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FINTRAC Reporting

- Certain types of transactions must be reported to FINTRAC.
- Some transaction types require you to collect additional information about the customer or the transaction.
- All of these transactions require you to identify the customer (in accordance with accepted methods under Canadian law).

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FINTRAC Reporting Timelines

Report Type	Timing	Reported To
Large Cash Transaction Report (LCTR)	15 calendar days from the transaction date.	FINTRAC
Large Virtual Currency Transaction Report (LVCTR)	5 working days after the day on which the person or entity transfers or receives the amount.	FINTRAC
Suspicious Transaction Report (STR)	As soon as practicable after completing the measures that enabled a determination that there are reasonable grounds to suspect money laundering and/or terrorist financing.	FINTRAC
Attempted Suspicious Transaction Report (ASTR)	As soon as practicable after completing the measures that enabled a determination that there are reasonable grounds to suspect money laundering and/or terrorist financing.	FINTRAC
Listed Person or Entity Property Report (Previously called Terrorist Property Report)	Immediately.	FINTRAC, RCMP, CSIS

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Large Cash Transactions

- Large Cash Transactions are any cash transactions valued at $10,000 or more, either in a single transaction or several transactions within 24 hours.
- Customers must be identified before they can complete a large cash transaction.
- It's ok to tell a customer that you must report large cash transactions.

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Large Virtual Currency Transactions

- Similar to Large Cash Transactions, Large Virtual Currency Transactions are any transactions where you receive virtual currency valued at $10,000 or more, either in a single transaction or several transactions within 24 hours.
- Customers must be identified before they can complete a large virtual currency transaction.
- It's ok to tell a customer that you must report a large virtual currency transaction.

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24 Hour Rule

The 24-hour rule is the requirement to aggregate multiple transactions when they total CAD 10,000 or more within a consecutive 24-hour window and the transactions are:

- conducted by the same person or entity;
- conducted on behalf of the same person or entity; or
- for the same beneficiary (person or entity).

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Third Parties

- Is someone else instructing the customer to complete a transaction?
- Is the customer completing a transaction on someone else's behalf?

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Unusual Transactions

- If you have reasonable grounds to suspect that a transaction is related to money laundering or terrorist financing, you must identify the customer and let the Compliance Officer know about the transaction and why you think it was suspicious.
- There is no minimum dollar value.
- The transaction may or may not involve cash.
- Even if the transaction is not completed, you must report it to the Compliance Officer.
- Do not tell the customer that you are suspicious, simply state that it is company policy to request this information.

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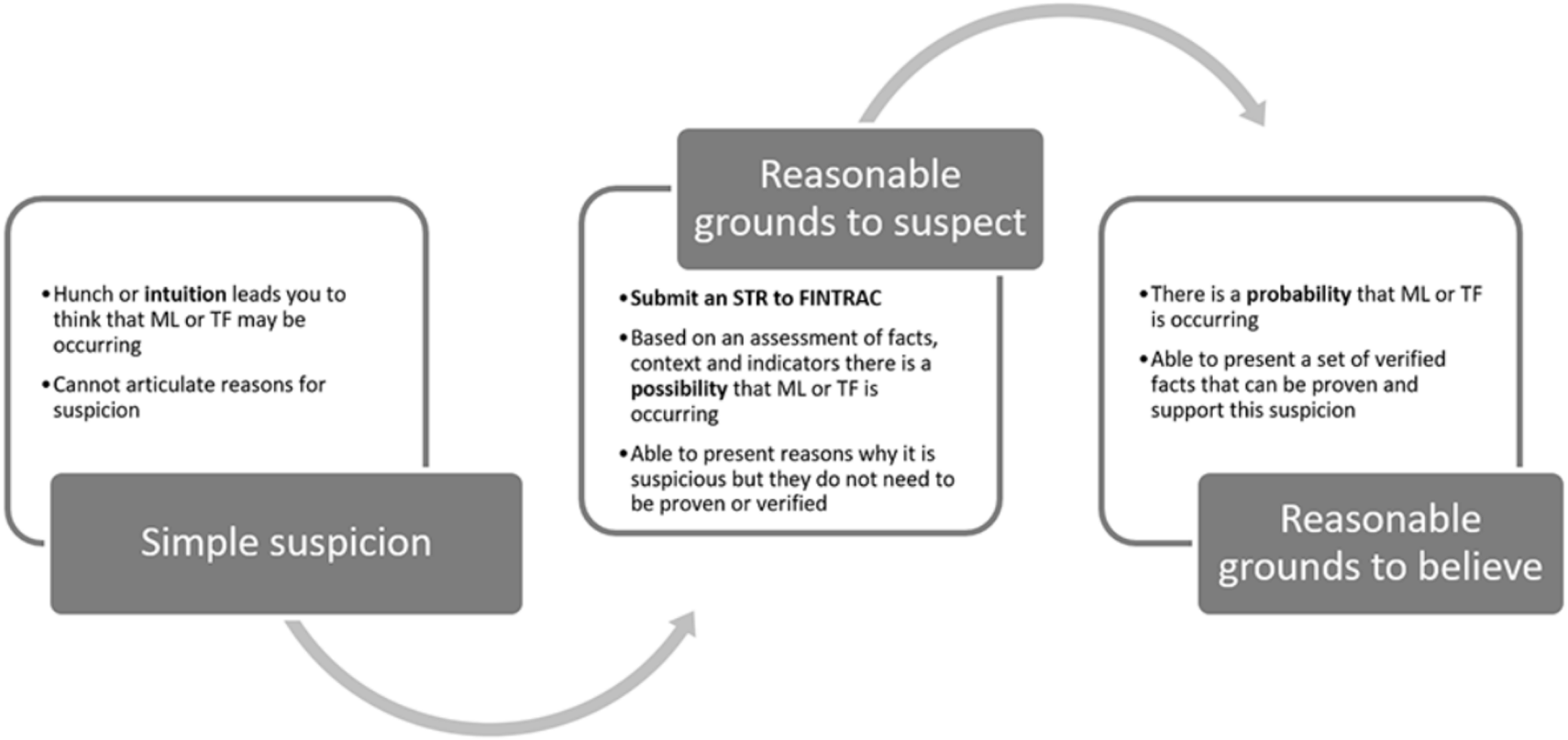
The Stages of Suspicion



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What Indicators Should I look for in Customer Behaviour?

- There is no single indicator that "works every time".
- Trust your instincts.
- If in doubt, file a report with the Compliance Officer.

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What Indicators Should I Look for in Transactions?

- Unusual given what you know about the customer.
- The transaction doesn't make sense.
- Purchases using cash in amounts just under reporting thresholds.
- Purchases using cash in amounts excessive of other customers.

Unusual Transactions

- You don't have to know that a transaction is related to criminal activity to file a report with the Compliance Officer. The standard is met if you think that the transaction is unusual.
- You must file a report if:
  - A customer changes their transaction to avoid being identified (such as breaking a large cash transaction into smaller transactions).
  - A customer refuses to be identified.
  - You believe that a customer may have provided false or misleading information about their identity.
  - A customer makes several payments in cash or using prepaid cards then requests a refund using a different payment method.
  - A customer tells you that they are paying for an item with the proceeds of crime.

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Listed Person or Entity Property

- Reports are required for terrorist and sanctioned property (funds or physical goods) including all property known to be owned or controlled by listed persons.
- Staff must notify the Compliance Officer immediately where there are reasonable grounds to suspect.
- Like suspicious transactions, you should not let the customer know that you are doing this, but you should identify the customer if possible.
- Where a List Person or Entity Property Report is filed an STR must also be submitted.

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Sending Reports to the Compliance Officer

- Reports should be sent to the Compliance Officer on the same day that the incidents occur.
- There are specific timelines to report transactions to FINTRAC, and any delays could result in your being out of compliance with the law.
- If you aren't sure what forms to use or how to file a report, ask your manager or Compliance Officer.

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Remember – You are protected!

- As long as you are making a report to the Compliance Officer "in good faith", you are protected under the law in Canada.

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CBSA Declaration Requirement (Imports/Exports)

- Anyone who is importing or exporting goods into or out of Canada needs to file a declaration with the CBSA as follows:
  - whether the goods are proceeds of crime as defined by subsection 462.3(1) of the Criminal Code or are goods related to money laundering, to the financing of terrorist activities or to sanctions evasion; and
  - that the goods are actually being imported or exported, as the case may be.
- Introduced to address Trade-Based Money Laundering (TBML) risk.
- Examples of TBML:
  - False or phantom shipments. Goods are declared but don't actually exist (paper transactions used to move value)
  - Over / under-invoicing. Manipulating prices to shift money across borders under the guise of trade
  - Misrepresentation of goods. Incorrect description, quantity, or quality to hide true value or bypass controls
  - Use of sanctioned or high-risk counterparties. Moving goods to/from restricted parties while obscuring involvement

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PART 3:
AML & CTF

IDENTIFICATION

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Identifying Customers

- As a dealer in precious metals and stones, you are responsible for identifying clients for:
  - Large cash transactions
  - Large virtual currency transactions
  - Suspicious (and attempted suspicious) transactions
- When you identify customers, all information must be recorded.
- If the customer is a company, you must identify the signing authority.

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Government-Issued Photo Identification

- The identification document used must be **authentic, valid, current** and:
  - Be issued by a provincial, territorial or federal government in Canada or an equivalent foreign government;
  - Include a unique identifier number (such as a driver's license number);
  - Include the name of the individual being identified; and
  - Include a photo of the individual that we are identifying (and we must match the photo to the person).
- You can determine whether a government-issued photo identification document is authentic, valid and current by viewing it in person and looking at the characteristics of the physical document and its security features.
- You may use the government-issued photo identification method if a person is not physically present, but you must have a process in place to authenticate.

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Provincial Health Cards

- Although some health cards meet the standards, there are laws in most provinces and territories that prevent these types of cards from being used as identification documents.

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Other Identification Methods

Single Process (Credit File Method)	Dual Process	Mandatary/Agent
Uses valid and current information from a Canadian credit bureau data (Equifax and/or Transunion) – the credit file must be in existence for 3 years and have at least 2 different tradelines	Uses valid and current information from two different reliable sources	Uses a photo identification document issued by a government that is authentic, valid and current, which is verified by a mandatary or agent.
Name, address, and date of birth must match	Sources must match A combination of two of the following: -Name & address, -Name & date of birth, -Name & Canadian financial account.	The name and face of the person must match the identification document.
Can not be provided by the customer	The most recent versions of documents must be used.	A written agreement must be in place for all agents or mandataries.

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Organizations

If your customer is an organization, you need to collect information about the organization, including proof that the organization exists, and information about the people that own or control 25% or more of the organization (beneficial owners).

You also need to ask whether the organization is a non-profit, a registered Canadian charity or solicits donations from the public.

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Beneficial Ownership Discrepancy Reporting

- Effective October 1, 2025, reporting entities are required to report to Corporations Canada any material discrepancies identified between the beneficial ownership information that they have obtained and that is listed in Corporations Canada's database.
- DPMS must report the material discrepancy within 30 days of identification, if not resolved by then, when the client is an active CBCA corporation.
- This only applies to corporations assessed as high risk for money laundering, terrorist financing, or sanctions evasion.

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When Identification Fails

- The reason must be documented, and compliance must be notified.
  - In the case of entities, if beneficial ownership cannot be confirmed, the senior-most executive is identified, and the entity is considered to be high-risk.
- No large cash or virtual currency transactions can be performed (no exceptions, including trade shows).

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Business Relationships

- You have a "business relationship" with any customer that has conducted two or more "activities" that require identification within a five (5) year period.
- The same transaction may account for two or more "activities" (e.g., a large cash transaction report and a suspicious transaction report).

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PEPs & HIOs

- Politically Exposed Foreign Persons (PEFPs) are automatically considered high-risk because they have access to public funds and may be tempted by bribes or corruption.
- Domestic Politically Exposed Persons (PEPs) may be considered high-risk – the reporting entity must make this determination.
- PEPs and Heads of International Organizations (HIOs) include the people that have held certain positions, as well as their immediate family members and close associates.

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Foreign PEPs or PEFPs

Anyone who holds or has held any of the following offices or positions in or on behalf of a foreign state:

- 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;
- Leader or president of a political party represented in a legislature; or
- Holder of any other prescribed office or position.

Domestic PEPs

Anyone that holds or has held one of the offices or positions on behalf of the federal government or a provincial government, within the last five (5) years:

- Governor General, lieutenant governor or head of government;
- 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 Her 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
- Holder of any other prescribed office or position.

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Head of an International Organization (HIO)

The head of an international organization is a person who is either:

- the head of an international organization established by the governments of states; or
- the head of an institution established by an international organization.

When you refer to the head of an international organization or the head of an institution established by an international organization, you are referring to the primary person who leads that organization, for example, a president or CEO.

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PART 4: AML & CTF

ADDITIONAL CONSIDERATIONS & UPCOMING CHANGES

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Upcoming Changes

- **Effectiveness:** AML programs must now be reasonably designed, risk-based, and effective. This shift gives FINTRAC broader authority to assess not just whether a program exists on paper, but whether it is properly structured and actually works in practice. Compliance is no longer about meeting minimum technical requirements.
- **FINTRAC Enrollment:** Universal Enrollment requires all reporting entities (REs) not currently registered to enroll with FINTRAC, provide certain required information about their businesses. DPMS's will now register with FINTRAC and will be required to complete periodic renewal within prescribed timelines, and ensure that all information is kept current, accurate, and reflective of the entity's operations.

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De-Risking

Can my bank close my bank account without warning? Yes!

- 'De-risking' refers to financial institutions closing the accounts of clients perceived as higher risk for money laundering or terrorist financing.
- Request for information from your bank must be responded to in a timely manner.
- Back-up and alternatives.

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Canada's Mutual Evaluation

- Canada underwent its mutual evaluations from the Financial Action Task Force (FATF) regularly in 2025.
- DPMS sector meetings took place in Q4 2025.
- This review will likely result in AML and CTF legislative changes.
- For those using the compliance kit tools, the most recent regulatory updates will be reflected ahead of coming into force.

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Contact

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Questions?

Main Reference Links

- AML Compliance Material and FAQs: https://www.outliercanada.com/canadian-jewellers-association/
- FINTRAC's landing page for DPMS: https://fintrac-canafe.canada.ca/re-ed/dpms-eng
- FINTRAC's Online Reporting Portal: https://fintrac-canafe.canada.ca/reporting-declaration/Info/f2r-eng

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