The Effects of Money Laundering on the Canadian Real Estate Market

by

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The above committee determined that the thesis is acceptable in form and content and that a satisfactory knowledge of the field covered by the thesis was demonstrated by the candidate during an oral examination. A signed copy of the Certificate of Approval is available from the School of Graduate and Postdoctoral Studies.

ABSTRACT

White collar criminals benefit from their status and positions. Further, they invest the proceeds of crime into the Canadian real estate market, driving up the price of home ownership for working-class Canadians. This thesis explores the relationship between FINTRAC financial transaction reporting in all sectors and suspicious transaction reporting in the real estate sector respectively with the MLS composite home price index. The findings suggest that greater action is needed by real estate representatives to increase the difficulty of elite criminals to profit from weak regulation and enforcement in the industry. The proposed recommendations include a commission incentive to encourage real estate agents to submit suspicious transaction reports, a national database of beneficial ownership identification, and improved public awareness of the occurrence of money laundering in real estate.

Keywords: money laundering; Canadian real estate market; white collar crime; regulation; suspicious transaction reporting

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STATEMENT OF CONTRIBUTIONS

I hereby certify that I am the sole author of this thesis and that no part of this thesis has been published or submitted for publication. I have used standard referencing practices to acknowledge ideas, research techniques, or other materials that belong to others. Furthermore, I hereby certify that I am the sole source of the creative works and/or inventive knowledge described in this thesis.

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LIST OF ABBREVIATIONS AND SYMBOLS

AML	Anti-Money Laundering
CDR	Casino Disbursement Report
CIS	Canadian Income Survey
CRA	Canada Revenue Agency
DNFBP	Designated Non-Financial Businesses and Professions
DV	Dependent Variable
EFT	Electronic Fund Transfer
FATF	Financial Action Task Force
FINTRAC	Financial Transactions and Reports Analysis Centre of Canada
FIU	Financial Intelligence Unit
FTR	Financial Transaction Report
HPI	Home Price Index
IMF	International Monetary Fund
IV	Independent Variable
KYC	Know-Your-Client
LCTR	Large Cash Transaction Report
LFS	Labour Force Survey
LOTA	Land Ownership Transparency Act
MLS	Multiple Listing Service
PCMLTFA	Proceeds of Crime Money Laundering Terrorist Financing Act
RAT	Routine Activity Theory
RE	Real Estate
STR	Suspicious Transaction Report
TI	Transparency International

CHAPTER 1: INTRODUCTION

White collar crime is notoriously difficult to detect (Hansen, 2004) and white collar criminals are an extremely dangerous group (Brody & Kiehl, 2010). In particular, money laundering, defined as "the act of disguising the source of money or assets derived from criminal activity" (Transparency International [TI], 2019, p. 6), often goes undetected but poses a significant risk to the global economy (Tellechea, 2008; Singh & Best 2019). According to the International Monetary Fund (IMF), the value of money laundering may be as high as 5% of global GDP, nearly $1.5 trillion USD. This is especially alarming given that only an estimated 50 cases of money laundering have been prosecuted in Canada in the past 10 years (Expert Panel on Money Laundering in BC Real Estate [Expert Panel], 2019).

Since the proliferation of COVID-19 as a global pandemic, stealthy criminals are using it as an opportunity to exploit the financial system's vulnerability. The Financial Action Task Force (FATF) is an intergovernmental organization which seeks to achieve international coordination to reduce money laundering and terrorist financing. It has found a surge in electronic fund transfers with COVID-19 noted as the purpose to avoid further scrutiny (Zaia & Jennings, 2020). As well, the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) has lowered the requirements of due diligence, including the verification of customer identities (Zaia & Jennings, 2020). Overall, government efforts have been directed towards developing responses to and managing the progression of COVID-19 on Canadian healthcare systems and the Canadian economy (Financial Action Task Force [FATF], 2020). Therefore, as opportunities for money laundering mount in connection to COVID-19, anti-money laundering (AML)

regulations and enforcement have taken a back-burner. At the same time, Canadians continue to experience widespread income loss, and thus affordability and stability of housing has become an increasing problem (Association of Municipalities Ontario [AMO], 2020). In essence, it is evident that during times of rapid change such as the COVID-19 pandemic, criminals will take advantage of opportunities that present themselves. This unfolding is indicative of the state of protections for the public against financial crimes.

1.1 Money Laundering: Damages to the Individual and the Economy

For the personal protection of our wealth and emotional well-being, it is paramount to detect and halt the efforts of money launderers. However, the damage of money laundering extends beyond the impact to the immediate victim, as it also harms entire communities and economies. In essence, this money, the proceeds of crime, ends up in the legitimate financial market, invested primarily at banks but also in property. Therefore, given the extensive financial means of launderers, indicated previously as roughly 5% of GDP globally, investments made with this substantial amount of money can artificially inflate price levels in a community.

Furthermore, the purchase of residential property is a predominant technique of money launderers to integrate funds into the legitimate economy. Given access to large amounts of cash and favourable credit terms when using company names, money launderers have a significant economic advantage in the real estate market. As a result, home prices are exaggerated and the housing market may be stifled by an inability of the working class to enter the buying market. Ultimately, illegal property purchases deter their legal counterparts (Quirk, 1997). On the other hand, owning real estate is unjustly

advantageous to criminals, as it helps them to “self-finance, diversify, and grow” (Levi, 2002, p. 183). Specifically, the Expert Panel on money laundering in BC real estate (2019) notes that residences may be used to facilitate drug and/or human trafficking, leaving the community to pay the price of crime, overdoses, and deaths, all while making a return on their investment.

The aforementioned illicit property use illuminates the participation of another key party, organized criminals, who similarly integrate the proceeds of crime into real estate investments. As a brief prelude to the following sections, money laundering, white collar crime, and organized crime are defined. First, money laundering is a financial crime which conceals the criminal origins of profits (Gottschalk, 2010; TI, 2019). White collar crime operates in the legitimate business realm whereas organized crime relies on the underground economy to provide illicit goods and services (i.e., drugs, weapons, prostitution, etc.) to the public (Albanese, 2015). Although there are stark differences between the organization and services of businesses led by white collar and organized criminals, they nonetheless share the need to transfer the proceeds of crime to licit investments, and thus both rely heavily on money laundering strategies. In an effort to illuminate the social inequalities of money laundering and its impact from a social justice perspective, this thesis will focus on the operationalization of money laundering by white collar criminals, using their position and status for greed and financial gain. Intermittently, illustrations of money laundering by organized criminal groups will be used to underline relevant specific harms and costs.

Overall, money launderers take advantage of the existing regulatory climate. Similar to the exploitation of the vulnerability inherent to the global pandemic, money

launderers also identify and capitalize on loopholes in the financial and real estate industries. In particular, Canada has become a haven for international and domestic money laundering. This is primarily due to the opaque ownership of Canadian real estate and the weak regulation and enforcement measures outlined in the Proceeds of Crime Money Laundering Terrorist Financing Act (PCMLTFA), an act designed to respond to, detect, and deter money laundering. It is largely this concealed ownership that keeps detection rates at less than 1% and conviction rates at only 11% (TI, 2019). Hence, there is a pressing need for a shift from a reliance on criminal enforcement to a preventive regulatory approach (Freilich & Newman, 2018).

1.2 Thesis Roadmap

This thesis demonstrates that while the harms of money laundering may not be immediately visible, they are nonetheless damaging. The real estate market is specifically used to illustrate this argument. Further, a case is made for increased regulation of the real estate industry. In what follows, Chapter 2 examines the existing body of literature on white collar crime with a particular focus on money laundering. Chapter 3 explains the methods used to test the hypotheses and contribute to the existing gaps in the body of knowledge. Chapter 4 details the research findings and their relevance to the criminal opportunity structure. Chapter 5 acknowledges how this paper advances the academic discourse and provides recommendations to diminish money laundering activities in the real estate sector.

CHAPTER 2: THEORETICAL FRAMEWORK AND LITERATURE REVIEW

2.1 Theoretical Framework

A variety of theoretical perspectives may be used when studying the behaviour of white collar criminals. In the 1930s, Edwin Sutherland first termed it 'white collar crime', using it to illuminate the wealth disparities in the criminal justice system. Sutherland (1940) also developed his own theoretical explanation of white collar crime, as learning law-breaking behaviours by those in close relationship, coined 'differential association'. Since, Gottfredson and Hirschi (1990) explained white collar crime with their general theory of crime, which points to a lack of self-control shared among all criminals. While not dismissing the important contributions and advancements of these scholars, this thesis utilizes a theoretical perspective not commonly used to explore crimes of the elite; that of environmental criminology.

Instead of trying to understand the motivations and behaviours of perpetrators, the framework of environmental criminology looks to identify factors in the environment to prevent the crime (Wortley & Mazerolle, 2008). Under the umbrella of environmental criminology, routine activity theory (RAT) is used to explore the potential of place managers to block criminal opportunities. While the term place manager is conventionally used to refer to a manager at a physical place of business, this thesis uses it as a reference to the provider of services on behalf of a company, and specifically that of real estate agents. Therefore, this section will begin with the history and common theories of white collar crime, and then move to an explanation of the use of environmental criminology theories to better address its prevention.

2.1.1 The History and Common Explanations of White Collar Crime

The study of criminology has been primarily focused on crimes of the lower class. To this end, it has been detrimental to already marginalized groups, as they have been the prime target of enforcement agencies, policy makers, and scholarly research. Furthermore, Edwin Sutherland was one of the first researchers to highlight the class bias of the criminal justice system. He acknowledged that conventional explanations for crime are not adequate, as they do not accurately capture crimes of both the upper and lower class. Specifically, pointing to poverty does not explain white collar crime as it does street crime for the following reasons: (1) data linking criminality to lower socioeconomic status is inherently flawed due to the absence of upper-class recordings of criminality in the samples used; (2) white collar criminals seldom experience poverty; and (3) severe economic hardships and roots of criminality in childhood are not evident. Thus, Sutherland proposed differential association, which purports that criminal behaviour is learned either by close contact with law-breaking individuals or a lack of close contact with law-abiding individuals (Sutherland, 1940).

While Sutherland brought upper-class criminality to the forefront by highlighting the crimes committed and sample skewness, his theoretical explanation is largely unaccepted by the academic community (Simpson & Weisburd, 2009). Some key criticisms of differential association theory includes its measurement difficulties with respect to exposure to crime, and that exposure itself is sufficient enough to result in criminal behaviour. As well, a general theory of crime is one of the most popular theories used to explain white collar crime. Gottfredson and Hirschi (1990) stipulate that low self-control explains all types of criminal tendencies, but this claim has been widely contested

primarily because white collar crime involves a careful weighing of opportunities, risks, and benefits and these individuals achieve high status in their careers thus portraying high self-control and low impulsivity (Geis, 2000). Essentially, the general theory of crime is indeed far too general to accurately describe white collar crime (Palumbo, 1992), and undermines the extent of harm of white collar crime and applicability of regulations to tackle it. Therefore, the decision to use Rational Activity Theory as the guiding theoretical framework is appropriate.

2.1.2 Environmental Criminology: Routine Activity Theory

While not specific to financial nor white collar crime, environmental criminology theories are especially useful in determining how to best intercept criminal behaviour. The environmental perspective's primary objective is to block crime over curing the offender (Wortley & Mazerolle, 2008). Simply, environmental criminology aims to understand the trends and patterns of criminal activity, and the factors which influence them. The three pillars of environmental criminology are: (1) the environment plays an active and important role in criminal behaviour; (2) crime is clustered where the environment permits opportunities; and, (3) altering the criminogenic factors of environments can prevent opportunities for crime (Wortley & Mazerolle, 2008).

The environmental perspective is relevant to the financial crime of money laundering given the strategy of money launderers to invest funds where there is the least risk of detection. That is, money laundering, like other crimes is concentrated at places which allows its activity. Furthermore, particular sectors are exploited by money launderers given weak regulation and a lack of private sector participation to interrupt the criminal process. Therefore, it is observed that the environment enables money

laundering in the arenas where there is less regulated and enforced measures to combat it, including suspicious transaction reporting and Know-Your-Client principles.

Moreover, routine activity theory falls under the umbrella of environmental criminology, and argues that the "opportunity structure" of the crime must be analyzed to identify where interference/modification is necessary (Benson et al., 2009). In adherence with the environmental perspective, it does not attempt to explain the motivations behind criminal behaviour, but rather focuses on the intersection of the minimal elements which can create or prevent opportunities for crime (Eck & Clarke, 2003). Specifically, routine activity theory uses the crime triangle whereby the inner shape is of a perpetrator's inclination to commit a crime, a suitable target, and a viable opportunity for crime, and the outer triangle outlines the corresponding controllers, to identify key points of interception when an offender and a target meet in time and space (Eck & Eck, 2012).

Initially it was purported that guardians, protectors of the targets, were key to preventing criminal opportunities (Cohen & Felson, 1979). Then, Felson (1986) suggested that offender handlers, including those in close relationships with offenders (i.e., family, friends, and intimate partners), could also effectively intercept the criminal process. Finally, Eck (1994) added place managers as reducing opportunities for crime to occur in their places of business. Therefore, crime flourishes where there is a "convergence in space and time of the three minimal elements of… violations: (1) motivated offenders, (2) suitable targets, and (3) the absence of capable guardians against a violation" (Cohen & Felson, 1979, p. 589). In all three cases, increasing the perceived risk of detection changes the opportunity structure to be less desirable to criminals or would-be criminals (Webster, 2015).

Furthermore, it is imperative to identify if controllers are present for each of the elements in the crime triangle, namely handlers of offenders, guardians of targets/victims, and managers of places accordingly (Felson, 1995; Benson et al., 2009). Moreover, implementing controllers intercepts the crime triangle by blocking the opportunity for crime. If they are found to be present, their effectiveness should be assessed, and if not, points of interference should be identified (Benson et al., 2009). Moreover, place managers have an additional layer of responsibility for regulating crime at their place of business, as otherwise they are profiting from criminal activity (Eck, 2018). In addition, negative externalities are borne by the general public and can be seen as "crime as pollution" (Farrell & Roman, 2006; Eck, 2018). Essentially, the negative externalities at crime hot-spots are inherited by primary stakeholders with the exclusion of the business owner (e.g., employees, consumers), the community (e.g., increased government services needed and thus higher taxes), other local businesses, and the immediate social circle of offenders (Eck & Eck, 2012). Moreover, "the costs of crime to victims, taxpayers, and communities can be substantial, and criminal justice agencies are not well placed to reduce the opportunities, temptations, and provocations that are side effects of many of the social and technical developments we otherwise welcome" (Tilley, 2012, p. 369). Therefore, transferring the costs of business back to the owners is important for the well-being of the collective society.

Forming partnerships with private businesses to reduce opportunities at places expands the reach of policing while not incurring increases to public costs or resources (Webster, 2015). Specifically, the extension of responsibility to guardians of places, also known as place managers, are particularly important given that few places produce or

“pollute” a majority of crime (Eck & Eck, 2012). Common examples of criminogenic places include car parks and bars (Eck & Eck, 2012), but can also be tacitly applied to financial institutions and real estate agencies. In the case of money laundering, for example, it is concentrated at financial institutions, casinos, insurance, and real estate, among others (FATF, 2016), and thus it makes logical sense to target only the sectors which launderers are exploiting. Furthermore, place managers are particularly relevant for money laundering, as greater surveillance mechanisms at these institutions can increase the risk perception to possible offenders and thereby reduce crime levels (Berghoff & Spiekermann, 2018). Moreover, the concentration of money laundering as a problem in real estate specifically is largely due to a lack of response and intervention by industry members. Therefore, greater action by real estate agents as place managers is warranted to alter the opportunity structure for the investment of laundered funds in Canadian real estate (place) to make it less desirable to would-be criminals.

2.2 White Collar Crime Literature

A review of the literature surrounding white collar crime is integral to this thesis in order to understand who is behind the financial crime of money laundering. More specifically, it is important to focus on the benefit of laundering of proceeds of crime, through the lens of an elite criminal. Through an analysis of the use of money laundering by white collar criminals, it becomes apparent how to best deter their criminal activity. Moreover, their calculated and rational behaviour, coupled with their attraction to the real estate market as a method of investing large sums of criminal funds, highlights the criminal detection and enforcement gaps of this sector.

At its core, white collar crime should highlight crimes which are not typically investigated in criminology (Sutherland, 1949). White collar crime was first notably defined as, “a crime committed by a person of respectability and high social status in the course of his occupation” (Sutherland, 1949, p. 9). The definition has since been expanded to describe the characteristics of a white collar criminal as deceitful, untrustworthy, manipulative (intentional acts), and stealthy (intentional and concealment) (Pickett & Pickett, 2002). The criminal groups are also diverse in that they may be composed of full-time, part-time, legitimate, and illegitimate stakeholders with varying levels of sophistication (Levi, 2012; von Lampe, 2008). Given the diversity of white collar crime, the exact definition and exclusions are a hot topic. Scholars differ in their categorization of white collar crime. Pusch and Holtfreter (2020) suggest it may be sorted by many variables, including offense versus offender-based and occupational versus corporate crime. Briefly, occupational crime benefits the employee, or in other words is a crime against the corporation, and corporate crime benefits and is by the corporation (Clinard & Quinney, 1973).

Despite differences of opinion regarding the definition and varying compositions of white collar crime groups, it is agreed upon that the profile of a white collar criminal is significantly different from that of a conventional criminal. Firstly, while conventional criminals are typically viewed as being from the margins of society, both racially and socioeconomically, white collar criminals represent the opposite situation. In other words, conventional criminals are commonly regarded as being motivated to offend by an overall lack of legitimate opportunities, whereas white collar criminals belong to the middle-to-upper class and are in pursuit of greed. In particular, minority groups,

specifically those of low socioeconomic status, youth, and females are unlikely to act as white collar offenders (Braithwaite, 1985). White collar criminals are commonly more educated, situated in a career, belong to the middle and upper class, and are Caucasian males (Tyler, 2009). Given their more elite status, the fear of falling from their esteemed lifestyles serves as a reminder of what they risk losing if caught in a criminal scheme (Piquero, 2012). This is an important finding which highlights the contrasting motivations behind white collar crime and conventional crime, specifically that conventional criminals are enticed by financial means which could significantly improve their status, whereas white collar criminals may be deterred by the risk of diminished status if their financial schemes are revealed.

In addition to not belonging to marginalized groups, some key distinguishing factors which separate white collar criminals from mainstream criminals are their non-violent, unemotional, and rational nature (Tyler, 2009). Characteristically, white collar criminals do not act in the heat of the moment and are not perpetrators of crimes of passion. Instead, they are logical and carefully plan their criminal acts to increase their wealth (Tyler, 2009; Borlini, 2013). They weigh the risks and rewards, and base their decisions on only the most potent likelihoods of success. White collar crimes are grounded in logic, careful financial forecasts, and a solid understanding of the legal frameworks in all operating countries (Tyler, 2009; Borlini, 2013).

Due to the aforementioned, it is difficult for individuals to conceive of white collar criminals as not being part of the socially included circle; part of the ‘us’ group (Levi, 2012). Arguably most importantly, white collar criminals also do not view themselves as ‘criminals’ (Sutherland, 1949). Furthermore, white collar criminals are

treated favourably in the criminal justice system due to their esteemed social ranking (Sutherland, 1940). With reference to socioeconomic status, the upper class has more power than the lower class to influence the criminal law and proceedings (Sutherland, 1940). In contrast to the lower class, the upper class often receives little punishment for their deviant acts, and when they do, it is typically in the form of civil fines and penalties (Sutherland, 1940). Attempts to resonate with the judge and humanize oneself by citing extreme situations and especially atypical behaviour for one's personality is commonplace (Benson, 1985). Further, exemplifying superior achievement in one's career and a lack of prior record helps white collar offenders to argue that the offense was not part of their normal patterns of life (Benson, 1985). In summary, throughout the criminal justice process, upper-class criminals are privileged with many advantages. Specifically, the bias against the poor occurs at every stage of the criminal justice process, with an emphasis on the definition, identification, conviction, sentencing, and media portrayals of criminal acts (Reiman, 2004). In summary, it is important to recognize the privileges and positions of white collar criminals as it relates to their utilization of money laundering techniques in order to explore deterrence routes. Therefore, the fundamentals and applications of money laundering will also be discussed, as it relates to the transference of white collar crime proceeds into the legitimate economy.

2.3 Money Laundering Literature

Gottschalk (2010) proposes four main categories of financial crimes, namely corruption, fraud, theft, and manipulation with sub-categories including money laundering, cyber crime, embezzlement, insider trading, and identity theft.

Fundamentally, money laundering is the act of concealing dirty money (Levi, 2002). In particular, money laundering, defined as "the act of disguising the source of money or assets derived from criminal activity" (TI, 2019, p. 6), often goes undetected but poses a significant risk to the global economy (Tellechea, 2008; Singh & Best 2019). The funds laundered are generated from a variety of crimes, given its differing roots in white collar and organized crime, thus including drug and human trafficking for the latter, and are found in multiple sectors of the economy. Money laundering can represent a source of funding for terrorist groups, even if profit is not their aim (Covlea, 2016). Moreover, it has been evidenced that money laundering enables criminal activity by allowing the criminal organizations to "self-finance, diversify, and grow" (Levi, 2002, p. 183). Essentially, money laundering is the link which connects dirty, criminal money to the legitimate market.

Furthermore, the need for money laundering is on the rise. Specifically, 80% of Swiss bank employees surveyed believed that white collar crime had grown in the past five years, and 61.1% indicated it would continue to grow in the upcoming five years (Isenring, 2008). Therefore, the need to conceal and integrate illicit profits will only increase in the near future, given a greater pool of funds generated from white collar crime. Moreover, the motivation for the originating crime is best diminished when the cash from the criminal endeavours cannot be legitimized (Levi, 2002). Therefore, greater risks to the process of money laundering are needed to ensure the would-be rewards of its profits are sacrificed. The common areas of study related to anti-money laundering include enforcement, regulation, and the use of technologies to detect suspicious transactions (Singh & Best, 2019). All in all, money laundering is not simply a financial

crime, as its prime ability to transfer funds into the legal economy is the driving force behind a plethora of profit-driven crimes (FATF, 2020. Simply, if crimes are not profitable, then the motivation to commit them is drastically reduced (Levi, 2002).

2.3.1 The Process of Money Laundering

Despite its various techniques and sectors used, money laundering advances through shared steps to clean dirty money. It is typically illustrated as a three-stage model, namely placement, layering, and integration (Gottschalk, 2010). First, in the placement stage, the proceeds of crime enter the legitimate financial system, followed by the layering stage, which conceals the origins of the funds, often done in the form of multiple transactions, accounts, and financial institutions (Gottschalk, 2010). Reaching the integration stage is ultimately the goal, as in this stage, the proceeds are able to be used legitimately in the economy, including investment in the real estate market (Gottschalk, 2010; Covlea, 2016).

The exact techniques used in the three stages of money laundering are dependent on the finesse of the criminal group. Moreover, Schneider (2004) puts forth a typology for money laundering processes, based on the level of sophistication of the 3 inherent Cs: to covert, conceal, and create value, as well as the scope of the process, funds, and distance traversed. Specifically, the typologies range from basic to advanced international based on the aforementioned criteria (Schneider, 2004). Regardless, the money laundering process helps to identify critical points of intervention.

2.3.2 The Methods of Money Laundering

Money laundering takes place in many forms, which is one reason it is so difficult to detect. Smurfing, falsifying documents, property theft, electronic transfers between banks, parallel transactions, and derivatives are just some of the techniques used for money laundering (Quirk, 1997). Schneider (2004) identifies the most common methods of money laundering, namely the use of nominees, making multiple smaller transactions, and creating the illusion that the funds are sourced legitimately through business activity, either by mixing licit and illicit funds or by establishing shell companies. Sterling (2015) asserts that unlike legitimate businesses who want their ownership clearly linked to all assets, money laundering systems often use nominees to conceal the true beneficiaries. Furthermore, companies are particularly alluring to criminals because of their monetary value if dissolved, easier qualifications for credit, and stronger relationships with customers (Korsell et al., 2016). As a response to the strategy of companies holding criminal funds, there has been increased licensing, zoning, and registration requirements (Korsell, 2018). Therefore, while ownership may be hidden behind business names and nominees, increasing regulations in the sectors which money launderers participate is a strong mechanism against their criminal activity.

Moreover, understanding the types of companies utilized helps to understand how best to deter the criminal activity they participate in. Gottschalk (2008) proposes a conceptual model of financial crimes carried out by businesses, plotting their progress by the stage of organized financial crime over time. The model starts with an agency business whereby employees execute the crimes, then alliance businesses which partner with criminals, network businesses which involve some employees in all levels in illegal activities, and finally, mafia businesses whereby all employees at all levels are involved

in the financial crimes of the organization (Gottschalk, 2008). This model is especially useful when looking at money laundering as a financial crime carried out by mixed-fund businesses or shell companies in order to determine the responsible parties to face criminalization.

2.4 Investing the Proceeds of Crime

Money laundering is the transfer of proceeds of crime into the licit financial system. Using the Royal Canadian Mounted Police (RCMP) proceeds of crime (POC) records, Schneider (2004) shows that the main crimes generating criminal proceeds are (1) drug trafficking, (2) illegal liquor and tobacco trade, and (3) fraudulent activities, including theft. It is thus clear that money laundering is enabling a diverse range of crimes, both white collar and organized, with a significant majority involving contraband and addictive substances. Further, Schneider (2004) finds that the proceeds are stored predominantly in (1) deposit institutions, (2) insurance-related firms, (3) automotive assets, and (4) property purchases. Therefore, the criminal funds are placed in the same investments that a law-abiding citizen would choose.

Moreover, money launderers are logical and follow the same investment principles as ordinary members of society. Simply, the bank is the obvious answer when there is nothing to conceal (Sterling, 2015). Individuals involved in criminal networks weigh the risks of prosecution against the risks of victimization associated with holding large amounts of cash (Sterling, 2015). In essence, laundering operates by working around the financial system's investigative regimes (Levi, 2002). Money launderers exploit opportunities and loopholes in the financial system in order to minimize the risks and maximize the rewards.

2.4.1 Real Estate Purchases with the Proceeds of Crime

The proceeds of crime are commonly invested in residential property (Quirk, 1997). For example, real estate may be purchased under a corporation or nominee's identity either with no mortgage, or a high or low loan-to-value ratio mortgage (Expert Panel, 2019). The residential real estate market is used strategically for money laundering as a long-term investment vehicle due to its low liquidity. Accordingly, the transactions relate to the integration, placement and layering, and integration stages (Expert Panel, 2019). Detecting the investment of proceeds of crime in property purchases is especially challenging given that the aforementioned situations also represent legitimate market transactions (Expert Panel, 2019). This is an important point, as many real estate members equate money laundering as large or full cash transactions exclusively, an assumption that clearly needs to be challenged (Expert Panel, 2019). Therefore, it is understandable why criminals choose to invest the proceeds of crime in property, since their behaviour mimics real market transactions, and thus the risk of detection is drastically reduced.

Moreover, the real estate market is inviting to money laundering endeavours given its ability to house criminal operations, opaque structuring allowing for concealment of beneficial ownership, and its secure, stable, and strong potential for economic growth (Borlini, 2013; Expert Panel, 2019). Moreover, owning property can generate capital gains, rental revenue, and the capacity to easily falsify prices to grow wealth (Expert Panel, 2019). There are three main purposes for mortgage fraud in particular, namely to advance other crimes, to drive a profit, and to provide shelter (von

Lampe, 2008). Specifically, mortgage fraud may facilitate additional crimes, including money laundering and drug operations in the residence thereby increasing the crime rate in the neighbourhood (von Lampe, 2008). Pertaining specifically to money laundering, mortgage fraud may be used to adjust the value of the property by offering a side payment to the seller which is not recorded on the books, and then listing it for its true value (von Lampe, 2008). Similarly, Schneider (2004) claims that money laundering through real estate houses criminals, fakes mortgages, abuses solicitor-client privilege, and with the involvement of organized criminal groups, facilitates drug cultivation and manufacturing, as well as the sex trade and illegal gambling. Above all, residential property is known to be a secure investment and able to hold its value with relative stability throughout time.

Additionally, von Lampe (2008) specifies that mortgage fraud will also increase as global technologies continue to improve. Further, it is noted that communities with income and price disparities which are undergoing regional change or development, are disproportionately targeted (von Lampe, 2008). Transitioning communities are thus exploited and segments are further marginalized. To boot, as globalization has proliferated, the effect on the real estate market has worsened (Tellechea, 2008). Nonetheless, real estate members argue that they do not play a role in money laundering and should not be hindered by additional requirements as this would harm a crucial part of the economy (Tellechea, 2008). However, the true danger resides in failing to interrupt criminal proceeds from entering the real estate market. Detrimentally, illegal property purchases deter their legal counterparts (Quirk, 1997), as home prices are artificially inflated and confidence in the market is eroded.

2.4.2 The Impact of Illicit Investment in the Canadian Real Estate Market

Canada is a prime target for the integration of laundered funds. Unfortunately, it has become a haven for international and domestic money laundering, primarily due to the opaque ownership of Canadian real estate and the weak regulation and enforcement measures documented in the Proceeds of Crime Money Laundering Terrorist Financing Act (PCMLTFA). Beyond this, Transparency International (2019) highlights that relaxed rules surrounding disclosure of beneficial ownership provide a haven for those looking to remain anonymous while integrating funds, further allowing detection rates to rest at less than 1% and conviction rates at only 11% (TI, 2019). To this point, Hundtofte and Rantala's (2018) study (based on FinCen 2016 data) found that mandated geographic targeting orders of beneficial ownership in the U.S. for real estate purchases over $1 million resulted in a 66% decline in shell company real estate purchases with no mortgages, as well as a 4.2% decrease in house prices.

Furthermore, mortgage fraud is more common in Canada's most populated urban hubs, specifically in Quebec, Ontario, Alberta, and British Columbia (Von Lampe, 2008). In the Greater Toronto Area between 2008 and 2018, residential mortgages amounting to more than $25 billion were provided by unregulated lenders, thus escaping all anti-money laundering procedures mandated for financial institutions and regulated mortgage brokers (TI, 2019). Unregulated mortgages were taken out at a rate of 50% of all corporate purchases of residential properties, compared to only 3% for individual buyers (TI, 2019). Moreover, this proportion is especially significant given that greater than 50% of homes appraised at more than $7 million in the GTA are owned by companies (TI, 2019).

Therefore, Transparency International's (2019) findings suggest that mixed-funds and shell companies are using the proceeds of crime to anonymously purchase expensive residential properties. Hence, taken altogether, there is a pressing need for a change in the handling of money laundering operations, and ultimately a shift from a reliance on criminal enforcement to a preventive regulatory approach.

2.5 Social Environment and Perception of Harm

Despite the aforementioned effects of money laundering on the economy, the public has a slanted perception of the magnitude of harms it poses. As first identified by Sutherland in 1940, the criminal justice system has continued to focus on the crimes committed by the lower socioeconomic groups of society while shielding the upper class from criminalization, thus creating an inaccurate image of the most perilous threats (Reiman, 2004). In conjunction, the media's depiction of one-on-one crimes maintains the construct that they are the true danger to society, and in doing so, also showcases the poor as the typical criminal, given that individual-level crimes are most commonly performed by this demographic (Reiman, 2004). Thus, society does not view money laundering as a serious endangerment to public safety or welfare (Hansen, 2009).

It is apparent that society does not view money launderers as villains like they do other criminals. On the one hand, Hollywood portrayals of organized crime make the criminals idealized and relatable, thus hampering the perceived severity of their acts (Weatherby et al., 2016). Moreover, Levi (2014) points to Ipsos MORI Scotland 2013 data which found that residents believed organized crime is primarily comprised of drug trafficking, followed by money laundering, and human trafficking. The survey results also indicated a sense that the government has failed to convey that organized crime

affects citizens on an individual level, and further, that citizens do not feel threatened by organized crime unless there is an easily identifiable group, such as the mafia, present in their neighbourhood (Levi, 2014). In essence, individuals generally understand what organized crime consists of, but nonetheless do not feel endangered by it.

On the other hand, knowledge of white collar crimes is weak. Since white collar crimes are often not in plain sight, they are easier to ignore and be naïve to. Interestingly, in one study, when asked to rate their understanding of white collar crime, 85.71% of respondents indicated that they believed they had a “moderate” or “very good” understanding, yet 97.62% said that the public was not well-informed about white collar crime (Weatherby et al., 2016). Therefore, it would seem that the vast majority believe they have a stronger understanding of white collar crimes than the general population. As well, it was found that 60.71% and 64.29% of the sample believed that violent crime and white collar crime could be justified (Weatherby et al., 2016). Similarly, there is a split response between the two types of crime as to which type of crime is more detrimental to society overall, with white collar crime being the response 45.83% of the time (Weatherby et al., 2016). This showcases the underlying lack of understanding of the extent of victimization of white collar crime, as it far outnumbers the victims of violent crime, organized and otherwise.

While white collar crimes are often not visible, it does not mean that they should be viewed less punitively; white collar criminals are an extremely dangerous group (Brody & Kiehl, 2010). Furthermore, in contrast to organized criminals, white collar criminals are generally not regarded as violent. However, this is contested by some scholars. While Weatherby et al. (2016) state that white collar crime is non-violent and

thus considered less dangerous, Brody and Kiehl (2010) counter this argument and claim that white collar criminals should not be considered as non-violent as this is not only inaccurate, but also helps their reputation. Further, it is dangerous to assume that white collar criminals do not have violent tendencies, as this results in diminished perceived seriousness (Brody and Kiehl, 2010). In fact, Weisburd and Waring (2001) found that a mere 15.1 percent of convicted white collar criminals had a criminal history of only white collar offenses, thus suggesting that their records could also include violent crimes. Moreover, white collar criminals' violent tendencies tend to increase as the risk of detection increases, even going so far as to murder whistleblowers and other involved parties, out of pure desperation (Brody & Kiehl, 2010). Therefore, the misconception that white collar criminals do not have the potential to be violent needs to be corrected. It should be understood that as the risks increase, their level of aggression is likely to, as well, in connection with their strategically organized sophistication.

It can also be seen that the likelihood and length of prison sentences for white collar crimes is substantially less than that for conventional criminals. According to imprisonment rates from the U.S. District Court in 2010, the longest average sentence of a white collar crime was for money laundering at 30.6 months, significantly lower than even the shortest sentence for a violent crime, namely assault, and substantially less than the longest sentence for a violent crime of murder, at 276.1 months (Weatherby et al., 2016). Therefore, white collar crimes face sentences that are much less than traditional crimes, yet are much more prevalent, with white collar crime incident rates ranging between 224 and 8,065 cases, whereas violent crime cases ranging from 39 to 631 (Weatherby et al., 2016).

Similarly, the likelihood of imprisonment for white collar crime is substantially less, with the 5 most serious violent crimes within 4 points of 100% and the 5 most serious non-violent crimes ranging from 62.9% to 77.6% (Weatherby et al., 2016). To add insult to injury, for those faced with prison time, the main category for violent offenders was purely imprisonment, whereas white collar offenders mostly received prison with probation (Weatherby et al., 2016). Thus, the overrepresentation of visible minorities and the urban poor is a further cue that the white, upper-class is perceived by the public as non-threatening, and most importantly, part of the 'us'.

It is of utmost importance that white collar crimes be viewed more seriously. This cannot be achieved unless there are increased punishments distributed for these crimes, prompted by greater public pressure (Rosoff et al., 2020). In order to solicit collective force, education is first needed to change the way the public views white collar crime (Weatherby et al., 2016). However, Isenring (2008) argues that more educated individuals consider white collar offenses less punitively. Therefore, careful attention must be paid to ensure that post-secondary courses include more coverage of white collar crimes and their harms (Weatherby et al., 2016). Furthermore, Weatherby et al. (2016) summarizes the ability of media coverage of major corporate scandals, such as Enron, to enlighten and enrage the public, but still argues that it is not enough to gain the understanding of the true extent of corporations' misuse of power.

Moreover, this is especially important given white collar criminals' ability to escape blame for their crimes, often pointing to their ability to exhibit restraint by not having stolen more money (Benson, 1985). Therefore, their attempts should not be taken at face value and the public should understand the true extent of their harms. Notably,

gender, age, and political preference do not impact an individual's perceived seriousness of white collar crime (Isenring, 2008). Thus, the reach of white collar crime is indiscriminate, and the likelihood of its awareness is equal across all groups.

2.5.1 The Widespread Consequences of White Collar Money Laundering

Given the more typically non-violent and discrete operations of white collar crime versus organized crime, it is not considered to be as perilous of a threat overall. To further highlight the need to treat white collar crimes more seriously, it is necessary to examine the breadth of their impacts. The scope of harms caused by white collar crime is extensive and widely cited in the literature, especially in regards to the social and economic consequences. Nonetheless, it is underexplored relative to the impacts of traditional crimes despite its much more profound effect on society (Weatherby et al., 2016; Pusch & Holtfreter, 2020). As previously discussed, white collar crimes are often underexamined because they cannot be linked to specific victims and thus are perceived to be victimless; however, their reach is extensive and has detrimental economic effects on entire regions (Berghoff & Spiekermann, 2018; Moore & Mills, 1990). In essence, the impact of white collar crime should not be underestimated.

Moreover, white collar crime, including money laundering, harms the most vulnerable members of society and exposes them to excessive economic despair and the depletion of lifelong savings (Moore & Mills, 1990; Croall, 2009; Berghoff & Spiekermann, 2018). With poverty being a pressing issue in even the most developed countries in the world, Hansen (2009) emphasizes that white collar crime is costing society several times what all conventional crime is combined. It is thus imperative to recognize the social harms.

Furthermore, financial crimes can devastate the macroeconomy. In particular, enduring economic effects can be seen, including loss of income, retirement savings and investments, and heightened tax requirements (Brody & Kiehl, 2010; Meeks, 2006). Quirk (1997) and the Expert Panel on money laundering in BC real estate (2019) similarly highlight the macroeconomic consequences of money laundering, primarily tax evasion and the deterrence of legal transactions described as contamination. As well, miscalculations of tax, expenses, and resources and inaccurate policy decisions due to these errors, as well as diminished confidence in the financial market leading to large fluctuations in the demand for funds, interest rates, and exchange rates, are just a few more ways in which the macroeconomy is affected by money laundering (Quirk, 1997). However, Schneider (2004) argues that money laundering, on one hand, may be advantageous to the economy, as it facilitates large investments of funds and a greater tax pool. Nonetheless, the Expert Panel on money laundering in BC real estate (2019) highlight that the societal costs far outweigh the benefits of any type of financial crime, given that a national reputation of relaxed rules on money laundering attracts international attention by criminal groups while deterring legitimate investments.

Moreover, the impact of money laundering specifically is far-reaching and substantial (Levi, 2002). According to the International Monetary Fund (IMF), the value of money laundering may be as high as 5% of global GDP, nearly $1.5 trillion USD, and drug trafficking revenues are said to make up $100 billion USD of this amount annually (Singh and Best, 2019; Covlea, 2016). In Canada, the Expert Panel on money laundering in BC real estate (2019) similarly estimates money laundering to have been $41.3 billion nationally in 2015, and the effect on the province's real estate market in particular to be

around 5%. However, the precise impact of money laundering is nearly impossible to accurately measure, and the figures used have only become solidified through repetition, yet are riddled with measurement errors (Levi, 2002; Levi, 2014). Nonetheless, Levi (2014) and Quirk (1997) argue that social harms may still be highlighted without the use of monetary numbers. The Expert Panel on money laundering in BC real estate (2019) extends this argument by noting that it is a harm in itself when the rewards of crime are greater than legitimate work. Fundamentally, despite debates surrounding the issue of empirical measurements of money laundering, it is generally accepted that it has substantial consequences to the economy.

Subsequently, money laundering in the real estate market has specific, related consequences. In particular, it may result in heightened competition, corruption of industry members, market intimidation and exclusion, losses to investors, and a response of greater regulation and policing (Schneider, 2004). More specifically, the impacts of mortgage fraud are diverse, including bank losses, damage to personal credit, wasted time, increased taxes and mortgage insurance rates, dampened reputation of real estate agents and financial institutions, artificial inflation of home prices, and a diminished ability to buy and sell real estate in the area (von Lampe, 2008). Municipalities with highly leveraged mortgages are likely to steeply rise and fall with the boom and bust of the economy (Ben-David, 2011). This is particularly damaging to local economies, given that houses are most commonly listed based on comparable properties recently sold in the area (Pagourtzi et al., 2003). Thus, fraudulent activities in the real estate market have the ability to destroy entire communities' property values and sale potential.

There are also secondary costs that linger in the economy, specifically diminished faith in public institutions, leaders, and collective society (Moore & Mills, 1990; Levi, 2012). Moreover, perceptions of "delegitimation" may arise, namely distrust in the same system which is designed to protect society (Moore & Mills, 1990). If trust in public welfare is eroded, then the felt need to fend for oneself becomes ever-present, and thus more law-breaking behaviour will flourish (Moore & Mills, 1990; Quirk, 1997). Moreover, street-level criminals may feel more empowered in their belief that there is a class bias and that they are unjustly targeted, again sparking an increase in crime (Moore & Mills, 1990). At the heart of it, money laundering puts global prosperity, the reliability of financial institutions, and safety at risk (Tellechea, 2008; Singh & Best, 2019). Collective morale should be carefully guarded to prevent future crimes and economic destruction.

Clearly, money laundering has both direct and indirect effects on the financial economy, social community, and political landscape (Borlini, 2013). In regards to the social effects, there is unfortunately a lack of accountability and blame for its fraudulent behaviour, and thus victims may suffer immense emotional damage (Levi, 2012). In particular, feelings of shame and guilt may arise as realized direct victims experience the psychological stress of financial losses (von Lampe, 2008). To boot, the victims are largely ignored by the criminal justice system, in favour of protection from victimization of conventional crimes (Moore & Mills, 1990). Quirk (1997) suggests that money laundering improves individual welfare by sacrificing collective wellbeing, and the collective costs to society may be much more substantial than the individual rewards, although the severity of harms differs by location and group (Levi, 2014). Importantly,

perceptions of the likelihood and seriousness of crimes can represent a social harm in and of itself, and should both be kept in mind when making policy decisions (Levi, 2014; Levi, 2012). Taken altogether, it is apparent that the risks to society are far greater than the risks to the white collar criminal as a money launderer.

2.6 Amendment of the Opportunity Structure of White Collar Money Laundering

Despite the adverse effects of white collar crime, it is notoriously difficult to detect (Levi, 2014). Simply, "what occurs in the street is more visible and more easily investigated than what occurs 'in the suite'" (Friedrichs, 2010, p. 277). The main challenges in identifying white collar crimes are police bias, unreliable self-reports, the inapplicability of victim surveys, and a lack of public data (Pusch & Holtfreter, 2020). Specifically, the police are trained to focus on street crimes and as such will be more drawn to investigate these types of crimes throughout their careers (Friedrichs, 2010). A common crime detection method, victim surveys, are not applicable to white collar crimes, as a vast proportion of individuals are entirely unaware that they have even been victimized which allows offenders to keep under the radar (Braithwaite, 1985). Given the wide range of barriers, it is understandable why the public does not view white collar crime punitively.

Furthermore, the range of techniques used for money laundering specifically, including non-disclosure of beneficial ownership and smurfing, help to evade scrutiny from public authorities. Essentially, money laundering succeeds by outsmarting the financial system's investigative regimes (Levi, 2002). Thus, although there are mandatory reporting requirements, such as the suspicious transaction report, stealthy criminals find ways around the rules of financial institutions. For example, Sterling

(2015) argues that criminal activity can thrive below the $10,000 mandatory reporting requirement. Further, given the extremely challenging nature of identifying money laundering, Sterling (2015) highlights the usefulness of examining financial transactions to identify non-practical business decisions that go against the principles of speed, cost, and security, as a method of uncovering criminal funds.

Firstly, there is a high opportunity cost associated with stagnant funds, and thus money left untouched represents a potential sign of money laundering (Sterling, 2015). Specifically, Sterling (2015) notes that legitimate businesses use cash to pay down debt or invest in capital, so funds left not improving the balance sheet are antithetical to common business philosophy and conduct. Secondly, illicit businesses spend additional time and fees to perform multiple transactions and create various holding accounts, thus increasing costs unnecessarily and as a result, reducing profit. Importantly, while criminal activity thrives in the dealings of cash, cash is known to be insecure, with banking institutions instead providing a safe place to store and invest funds. When legitimate businesses are in a position where they must handle cash, they take extra steps and precautions to ensure transparency and leave a clear audit trail of reporting in order to protect their revenue, whereas criminal organizations use cash to escape any traceability. Thus, large dealings in cash are themselves a red flag for criminal activity, as they stand in direct opposition to standard business practices and safeguards. Finally, evidence of the source of funds is essentially eliminated by a lack of record keeping.

Korsell (2018) similarly notes that situational crime prevention uncovers the situational factors which enable crime. Financial institutions lack of inquiry into illogical bank transactions represents one such situation which facilitates criminal activity.

Ultimately, as Milton Friedman (1970) simply puts it, "the business of business is business". If profits decrease because of criminal activity (shareholder value, stocks, equity, revenue), then the act poses more cost than it does benefit, and thus from a purely financial perspective, should be halted. Since white collar money launderers act logically and weigh their options strategically, any action which goes against the fundamentals of business should immediately trigger suspicion. Therefore, as a strategy to enhance detection, using principles which go against common business sense of growing revenues at the least cost, delay, and liability possible represents a strong indicator of money laundering.

In order to detect this bizarre business activity, experts have proposed various different strategies. Moreover, Kemal's (2014) findings indicate that there is a significant decrease in money laundering when employee training, customer record keeping, and suspicious transaction reporting strategies are utilized. However, the accuracy of the findings may be questioned given that the unit measurements remain undefined and dummy coded reference groups unlabeled. In addition, statistical software can prove useful to identify fraudulent activity given the constraint of human capital. Specifically, Singh and Best (2019) propose data visualization techniques to illustratively identify suspicious transactions using 4 main indicators (selected from the full list provided by AUSTRAC): frequent transactions over a limited time frame, transactions whereby the same party is both a customer and vendor, movement of funds to less secure countries, and loan payments by third parties. Essentially, these measures can be charted and abnormal activity, beyond a given threshold, can be red flagged for further scrutiny by employees.

Moreover, in cases where a shell or mixed funds company is used in the money laundering process, the organizational structure may be optimized to conceal criminal intent. Corporations cannot feel the pain of prosecution like an individual can, and thus deflecting the crime to the name of the corporation may represent a strategic way for top executives to protect themselves (Meeks, 2006). Simply, it is more challenging to uncover the intentions behind corporate misconduct compared to individual deviance (Albanese, 1984). Similarly, the hierarchy of a company can make it appear as though the crimes are taking place at the front-end, whereas in reality, they are masterminded in the top suites. Regardless, there is often a disconnect between the top and bottom levels of an organization (Braithwaite, 1985). As such, companies can be used to obscure the true criminal roots and ownership of funds.

Regardless of the methods employed, it is clear there is a greater quantity and stronger impact of elite criminals than traditional offenders, yet their privileged financial position lends itself to increased protections in the criminal justice system, insofar as they can afford top lawyers and can bribe relevant officials (Berghoff & Spiekermann, 2018). So, even after the rare detection of criminal intent, white collar criminals involved in money laundering still benefit from their status and wealth when it comes to subsequent actions, including flexible sentencing. Taken altogether, the ability of white collar criminals to avoid detection, prosecution, and public disapproval represents an area which requires strengthening in the regulatory and legal system in order to increase the risks to would-be criminals.

2.6.1 Enhancing the Risks at the Individual Level

Given the low risks and high rewards of white collar crime, the question should not be why some individuals are motivated to offend, but rather, why most are not (Braithwaite, 1985; Meeks, 2006). The expert panel on money laundering in BC real estate (2019) similarly argues this point by stating that the easier it is to launder money, the greater the incentive to do so. White collar criminals are rational actors who take opportunities only after calculating the costs and benefits (Berghoff and Spiekermann, 2018). It is thus imperative to increase the risks associated with financial crime in order to deter criminal activity.

There are several unique deterrents to white collar crime. The main risk factors for white collar criminals are fear of imprisonment, wealth and status deterioration, public shame, humiliation, and rejection from social circles (Brody and Kiehl, 2010). Arguably, publicity of offenses may act as the worst punishment available, as it damages their reputations and the stigma greatly impacts upon their families and associations with social networks (Benson, 1985). It is not to say that the "fear of falling" from esteemed positions directly reduces crime, but rather that it is an intervening variable that reminds individuals/businesses of what they stand to lose if they engage in criminal activity and of course, get caught (Benson, 1985).

In addition, there needs to be increased public and political demand for harsher sentencing of white collar offenders in order to discourage their deviant behaviour (Meeks, 2006). In fact, 63% of respondents from Swiss financial institutions indicated that they believed increased sentences would result in less criminal activity (Isenring, 2008). It has also been found that white collar criminals are more likely to reoffend than

violent criminals, partly due to the minimal sentencing they face and favourable terms they are offered, such as community service (Weatherby et al., 2016). Therefore, a strong mechanism against elite criminal activity is tightening sanctions to increase the fear of falling from their esteemed statuses and positions (Piquero, 2012). To this point, Braithwaite (1985) insists that any compliance method may be strengthened with the addition of criminal punishment. New approaches in the criminal justice system are warranted, including punishment equivalent to the harm produced by the crime (Reiman, 2004).

Furthermore, the typical white collar offender is not financially constrained as is often the case with street-level offenders. Moore and Mills (1990) thus insist that they should be required to pay the victim's damages instead of the government having to provide support. This would essentially act as a disincentive to monetary crimes. Nonetheless, Moore and Mills (1990) acknowledge that this recommended mandate would be met with significant push-back, as stakeholders are resistant to additional imposed costs and regulations. However, Weatherby et al. (2016) highlight the ineffectiveness of fines and mandated service as deterrents to white collar crime given white collar criminals' greater access to funds and primary interest of protecting their status and public image (of which only publicity and criminal sanctioning could put in danger).

Finally, the global reach of white collar crimes poses its own set of challenges. Most scholars believe that the greater the distance between the criminal endeavors and rewards, the greater the challenge of detecting its activity (Korsell, 2018). However, Levi (2014) argues that globalization can actually increase the complexity and limit the

capability of organized crime given the fluctuation of investments' value abroad and the need for criminal network partners internationally. It may be that greater international coordination is needed to identify, track, and criminalize offenders. Nonetheless, global threats to legitimate markets should be carefully monitored. Overall, the risks of reputational damage, regulation, imprisonment, and financial losses should be strengthened as attempts to reduce criminal activity.

On the other hand, decreasing the incentives for money laundering is also a useful strategy. Since money laundering facilitates the flow of revenues back to the hands of criminal organizations, and further, funds future endeavours, sacrificing the financial rewards of crimes such as money laundering is key to deterring illegal activities (Borlini, 2013). Regarding the War on Drugs, the U. S. Department of Treasury similarly acknowledges the best way to address the dangers of it is to tackle the profits it generates (Tellechea, 2008). The majority of crimes would not be committed if there was no financial reward linked to them (Financial Intelligence Unit, 2008). If criminal organizations are not able to transfer illicit funds to the legitimate economy, then the benefit of committing the crime is essentially eliminated.

2.6.2 Enhancing the Risks at the Corporate Level

From a corporate perspective, bad publicity can also be especially detrimental. In particular, reputational damage a company can experience from indictment may entirely destroy them (Meeks, 2006). Public scandals, such as the repeatedly mentioned Enron coverage, evoke feelings of greater societal risk and outcry against corporate misbehaviour. If publicity generates public awareness and fear, then this has consequences for businesses which may include demands to be more transparent and

accountable, reputational damage, and even boycotts. Thus, it represents an important risk for businesses to shield against in order to preserve not only their reputation, but also the associated shareholder value of the corporation. Overall, increasing the risks of consumer backlash can act as a significant deterrent to white collar crime, given that it directly results in unfavourable business performance.

As well, self-regulation may be encouraged through the adoption of industry standards. Cherney (2008) notes that fear of market exclusion for not adopting new industry practices, including policing partnerships, may serve as an incentive to comply with recommendations from regulatory agencies. Fear of industry exclusion may lead corporations to adopt crime prevention practices, and this self-regulation may deter enforcement and audits (Meeks, 2006). However, organizations who do not fear imposed sanctions are more likely to capitalize on the attractive opportunity structures of crime (Simpson, 2013). Meeks (2006) cites information asymmetry between investors and regulators, and private enterprises as a means for sustained white collar crime, and thus increased transparency by corporations is greatly needed, as well as accountability of top management and whistleblower protection. This is especially essential given that executives who lead by example with deviance encourage malfeasance throughout the organization, and foster a corporate climate of profit at any cost (Meeks, 2006). Therefore, fear of increased regulations and audits is a predominant risk to criminal groups.

2.6.3 Developing Private Sector Partnerships to Better Detect Money Laundering

To this note, since it is often outside of the range of expertise and resources given to police services, it is useful to determine the role of the private sector. There are many legitimate businesses and actors who facilitate white collar and organized crime, including financial institutions and real estate agencies. Intermediaries play a strong role and have immense influence on criminal operations (Griffin, 2002). These intermediary actors are considered 'gatekeepers' and should be particularly concerned with their exposed involvement or facilitation of money laundering, given the need to manage their reputation of providing safe and reliable services to the public (Borlini, 2013). Relevant stakeholders' initiative or lack thereof can provide or prevent opportunities for criminal activity (Cherney, 2018; Levi, 2014). Ultimately, it is imperative to encourage the private sector's involvement in order to adequately address issues of money laundering.

Moreover, intermediaries have a unique toolset separate from the police which may aid in detection and investigations. Often, the police are not equipped to handle the complex intricacies of money launderers, and thus detection efforts fall short (Borlini, 2013). Putting the creation and execution of anti-money laundering programs in the hands of the private sector diminishes the inherent self-interest and capitalizes on their access to privately held information (Borlini, 2013). Therefore, collaboration with the private sector, particularly financial institutions and intermediaries, is imperative to reduce the information silos and improve the system of anti- money laundering efforts.

There is a plethora of ways to encourage or enforce participation by the private sector. Cherney (2008) summarizes the literature on the various methods used to ensure third party involvement and compliance, including legislative mandates, formal and

informal requests, incentives, legal threats, forming relationships, compulsory record keeping and/or registrations, and negative publicity. Regardless of which tactic is utilized, extending guardianship can heighten surveillance, require greater efforts by perpetrators, and increase the risks while decreasing the rewards, to ultimately deter crime (Korsell, 2018). Thus, the institutions which can enable crime are the same institutions which can take measures to effectively prevent it by heightening the risk-to-reward ratio for the criminal organization.

Third party involvement, specifically financial institutions' ability to carry out macroeconomic policy changes can help to combat money laundering, increase tax collection, and restore the faith in and growth of the market (Quirk, 1997). There are a variety of synchronies apparent in anti-money laundering efforts. Furthermore, more than three-quarters of money laundering incidents use a financial institution (Beare, 2008). Thus, Schneider (2004) highlights the principle role of financial institutions in connecting the proceeds of crime to the legitimate economy, while denoting the interconnectivity of all economic sectors. Financial institutions must be obliged to report suspicious behaviour and enforce laws of forfeiture and confiscation of criminal capital (Levi, 2002). Intensifying the control mechanisms of financial institutions is one upstream measure to push back against terrorist financing efforts (Covlea, 2016). In doing so, Sterling (2015) argues that bank tellers and marketing departments are best equipped to detect money laundering, rather than the technologically advanced software programs that have proliferated for this purpose. Clearly, coordination of back and front-end bank operations is key to developing systems which both detect and prevent money laundering.

A main barrier may arise in the form of the unaware professional; the mortgage broker, real estate agent, insurance provider, lawyer, purchaser, and/or seller, among others, who may or may not understand their role in the criminal process (von Lampe, 2008). Nonetheless, these stakeholders represent key points of interception, as criminal organizations will utilize industry professionals, specifically bank and real estate agents in order to carry out their operations (von Lampe, 2008). Therefore, increased training and awareness is necessary on the part of the employer. Financial institutions should also be responsible for creating screening and customer maintenance systems which have markers for unusual, dangerous activity (Borlini, 2013).

However, third parties may have a disincentive to intercept criminal structures, as they often profit from their exploitation (Cherney, 2018). The shifting responsibility will not be without its obstacles, given the high resource demands it places on corporations, and thus the public sector should provide guidance and flexibility to jointly achieve the objectives set (Borlini, 2013). In addition to having minimal experience with strategic crime prevention, businesses are also faced with a monetary burden. Financial institutions dislike the costs incurred in implementing anti-money laundering practices and the lack of follow-up of results from their efforts (Beare, 2008). In essence, the expectations of third parties must be feasible, with consideration of cost and other resource constraints (Cherney, 2008). Cherney (2008) further explores the idea of what proportion of the cost the third party should be responsible for, and contemplates the notion that they should be held accountable for paying a cost relative to the advantage they will receive from the crime control. It is imperative that indirect beneficiaries of money laundering in the legitimate market be held accountable for their role.

2.6.4 FATF Recommendations for Private Sector Stakeholders

The FATF urges that in order to prevent criminal investment domestically and to be accepted by the international community, compliance of the international standards is paramount. Further, the FATF applies the full list of recommendations for achieving effective anti-money laundering strategies to financial institutions, and several to designated non-financial businesses and professions (DNFBPs), including real estate. While there are 40 recommendations specific to money laundering and an additional 9 for terrorist financing, the main recommendations of the FATF are to: (1) criminalize money laundering; (2) prevent criminal proceeds from reaching the hands of criminals; (3) strict enforcement of compliance by financial institutions and DNFBPs to implement measures for customer due diligence, record keeping, and suspicious transaction reporting; (4) improve overall transparency, and (5) ensure cohesion and coordination domestically and internationally. Thus, to ensure compliance of particularly customer due diligence and suspicious transaction reporting by financial institutions and real estate members, increased regulation is warranted. This is especially evident given that beneficial ownership is easily concealed in property purchases through the predominant use of nominees and companies. All in all, the FATF guidelines strongly recommend partnerships between the public and private sectors (Borlini, 2013). Therefore, real estate members should be legally compelled to know their client and work in collaboration with financial institutions, mortgage brokers, and insurance agents to ensure accurate representation.

Specific to the real estate sector, concrete action needs to be taken in order to prevent the investment of the proceeds of crime. Furthermore, the FATF's (2016)

evaluation of Canada's anti-money laundering regime found that compared to financial institutions, DNFBPs responses are not as effective. In particular, it was noted that, "further supervisory efforts are necessary with respect to real estate," and highlighted the necessity of beneficial ownership disclosure (FATF, 2016). There was also a broad consensus noted by the Expert Panel on money laundering in BC real estate that mandatory disclosure of beneficial ownership is the best tool available to combat money laundering operations. That is, beneficial ownership should be identified separately from the "legal person" (nominee) or "legal owner" (corporation) to determine the party which ultimately exercises control of the investment (Expert Panel, 2019).

Specifically, beneficial ownership of 10% or more should be mandated for disclosure, as well as the provisions to allow federal and regulatory agencies to access information and verify the accuracy of the reporting by involved parties (Expert Panel, 2019). Finally, a registry should be developed at the national level, similar to the Land Ownership Transparency Act (LOTA) in BC to ensure displacement is not seen as a by-product of implementation regionally (Expert Panel, 2019). This would represent a paramount step and new benchmark for all countries complying with the FATF's anti-money laundering mandates, given that it would be the first beneficial ownership registry for land anywhere in the world (Expert Panel, 2019).

2.6.5 Using Regulation as a Tool to Combat Money Laundering

In order to ensure third party involvement, regulation is often needed. Crime prevention through regulation acknowledges that previous enforcement techniques have been inadequate (Meeks, 2006). Further, it has been shown that there is an inverse relationship between levels of regulation and crime (Hansen, 2004). In other words,

Hansen (2004) observes as regulation is strengthened, crime is diminished. In particular, the United Kingdom serves as an example of rising white collar crime and victimization where regulation has decreased (Croall, 2009). Specifically, increasing regulation and enforcement can reduce money laundering activities, and represents a more effective, proactive approach to crime prevention (Borlini, 2013; Freilich & Newman, 2018). Predominantly, regulatory frameworks should be used to prevent money laundering from flowing through legitimate financial institutions and service operators.

While recognizing the concentration of crime at places, the operationalization of participation by third parties is not necessarily steadfast. Therefore, regulation is a proposed tool to encourage collaboration. Specifically, "if a relatively few places 'pollute' crime or disorder, and this pollution is a sizable proportion of all crime and disorder, then it makes sense to craft regulatory policies for handling those places" (Eck & Eck, 2012, p. 289). There are numerous sectors which require regulation to deter financial crimes. Under the federal regulatory process, the Financial Crimes Enforcement Network, bureau of the United States Department of Treasury, assesses real estate members, lawyers, and financial service providers as gatekeepers (Tellechea, 2008). As such, they are deemed as strong candidates for increased regulation, similar to the Know Your Client programs at financial institutions, which make it more difficult for individuals to conceal their identity and hide behind company names and accounts (Tellechea, 2008; Korsell, 2018).

Korsell (2018) argues that to strengthen regulatory frameworks, a macro approach of situational crime prevention is needed to increase efforts required and risks present, and diminish the benefits attached to the crime, "provocations", and excuses for it.

Moreover, risks may be enhanced by identifying critical points of intervention in the criminal process, whereby third parties may institute additional measures for safety and security (Piquero, 2012). Thus, Eck and Eck (2012) emphasize that regulation should be focused on encouraging action to be taken by place managers which would change the saliency of opportunities for crime. All in all, private institutions which provide the ability to invest and transfer large sums of money are in a prime position to interrupt the criminal process.

Overall, when evaluating whether a means (method) or ends (outcome) based regulatory instrument should be used, it is necessary to consider its effectiveness (crime reduction), efficiency (cost reduction), equity (fair cost distribution to proprietors), and side effects (Eck & Eck, 2012). Ends-based regulation can encourage businesses to design measures which are most effective to crime control (Tilley, 2012). Thereafter, means-based regulation can be enforced using the strategies developed in the term of ends-based regulation (Tilley, 2012). A prominent argument nonetheless exists that effective strategies may be leveraged as a competitive advantage rather than shared with industry partners (Tilley, 2012). Similarly, while self-regulation may have the economic advantage, it should be followed up with external pressures and check-ins to maximize effectiveness (Friedrichs, 2010). Self-regulation may be preferred by businesses for its ability to avoid increased regulation imposed by the government and to shield itself from public scrutiny (Tyler, 2009). Where self-regulation may be used as a tactic to deter further government-imposed regulation, it is also important to recognize that ‘window dressing’, in which a company appears to enforce new practices yet are insubstantial, may be detrimental to preventative models (Meeks, 2006). Regardless of which

regulatory approach is utilized, where regulation is imposed on private institutions, it will be met with push-back given the additional costs and market disruption (Tilley, 2012). It nonetheless should be strictly enforced on third parties to interrupt the process of money laundering.

2.6.6 Challenges to Implementing or Strengthening Regulation

However, the criminal justice system does not commonly use regulation to address crime, and thus strategies for proactive policing are not given sufficient resources when compared to conventional, reactive approaches (Eck & Eck, 2012; Webster, 2015). In particular, it is evident that "manipulating the conditions in which choices to commit crime are liable to be made is an underexplored and underused public policy and that a key to its implementation is to persuade those inadvertently creating crime opportunities to reduce them" (Tilley, 2012, p. 375). The lack of attention by policy makers is particularly evident at places, whereby the discussion of blocking opportunities is rarely addressed (Eck & Eck, 2012). Moreover, preventative regulation is not without its challenges (Meeks, 2006). Primarily, it comes at a high cost, and has unintended consequences for already law-abiding companies in the targeted industries, including diminished cash resources which may affect connected stakeholders as well (Meeks, 2006). In fact, any approach to regulation is costly and time-consuming to both implement and maintain (Tellechea, 2008). Borlini (2013) extends this argument by noting that increased costs for corporations also means increased costs for the government and reduced privacy for society. However, it should be noted that there is already an ever-present invasion of privacy as it stands, with the proliferation of "smart" devices, and as such, the impact on privacy of anti-money laundering efforts would be

only minimal, if felt at all. Nonetheless, Freilich and Newman (2018) pose the question of whether intervention of the private sector in policing changes societal views on the ability of traditional policing to protect our rights and safety.

As well, the relationship between companies and government plays a substantial role in the regulations which are enforced. Bittle et al. (2013) challenge the individualistic society and interconnectedness of the Canadian government and private businesses which discourages regulation insofar as there is a heightened likelihood of conflict of interest. The government sets a low priority agenda for fraud; however, it may be best dealt with in collaboration with parties outside of the formal police service (Levi, 2012). Levi (2012) urges governmental bodies and private institutions to increase sanctions to ensure compliance and guard against conflict of interest. Similarly, larger corporations are treated more favourably because they are considered more vital to the economy and less likely to be negatively impacted by any punishment (Meeks, 2006). Governments may restrict imposing greater scrutiny to powerful multinational corporations in fear that they will 'kill' big business (Meeks, 2006).

Additionally, regulation aims to put an end to current problems, but largely fails to consider new opportunities that the changes may create (Korsell, 2018). Simply, capitalizing on the regulatory framework is a common tactic for organized crime groups (Korsell, 2018). Braithwaite (2019) explains that policy and regulation often fail to take account of their impact on crime, and further, argues for an interdisciplinary approach to traditionally purely criminological pursuits, pointing to international relations as an essential discipline for collaboration. Finally, the extremity of the sanction for non-compliance or transgressions to regulations should be based on the magnitude of harm,

not the amount of private benefit (Shavell, 1985). The aforementioned outcomes underscore the importance of preventative methods, to prevent damage to the economy which is inherent in money laundering.

2.7 Gaps in the Literature and Contribution

There remains a disproportionate research focus on crimes of the lower class, and thus white collar crime is still significantly understudied (Griffin, 2002; Pusch & Holtfreter, 2020). In particular, crimes of the elite have been underexplored in the Canadian landscape, a nation which offers favourable court proceedings for corporate wrongdoers (Bittle et al., 2018). Turning a blind eye to crimes of the upper class can prove detrimental to the economy, especially when faith in the financial market and legal system is destroyed. It can also increase the difficulty of preparing budget and spend forecasts for government officials when the effects of white collar crime are largely ignored (Quirk, 1997).

Moreover, data used for criminal analysis and policy-making may be inherently flawed due to the exclusion of acts which are not criminally convicted (Griffin, 2002). Therefore, if we wish to better inform policy decisions, more research attention needs to be focused on white collar crime, but this seems an unlikely achievement given the long history of failing to criminalize the most powerful fraudsters (Barak, 2013). In particular, valid measures of fraud in nearly every country are extremely unreliable, and thus international estimates of money laundering have a weak empirical footing (Levi, 2012). Furthermore, white collar money laundering is indicative of their ability to manipulate markets and leverage their financial privilege and status to secure investments. This point is especially noteworthy given the substantial under-study of the investment of the

proceeds of white collar crime, derived from fraudulent business activities, into the Canadian real estate market.

Overall, little criminological research has been conducted on, and policy attention given to, the ease with which illegal money is invested in Canada's real estate market. This is particularly relevant given that the placement of illicit funds into Canadian property ownership poses several risks for the Canadian economy at large, namely inflated home prices and increased criminal activity. Specifically, as home prices continue to increase and more and more citizens are pushed out of the housing market, the investigation of money laundering becomes paramount. Added to this is that money laundering is used as a way to clean dirty money, of which maintains the financial success of white collar criminals, and is then funneled into residential property purchases.

Furthermore, it is evident that the real estate market has not commonly been viewed through a criminological lens. Instead, it has mostly been examined from an economic and financial perspective, looking particularly at rising house prices, inflation, leverage, and lending rates, and less commonly, migration. Moreover, the real estate industry is centered in a grey area of the regulatory framework which enables criminal activity to thrive. Therefore, intersectionality of research disciplines, predominantly economics and criminology, is necessary to create effective policies. To this point, critical points for enhanced regulation with third parties in the real estate market, to prevent money laundering and mortgage fraud, represent a significant gap in the criminological literature. Nonetheless, regulation as a strategy to address crime, and particularly to block opportunities at places and extend guardianship, is rarely considered

(Eck & Eck, 2012). In addition, the types of regulation and enforcement mechanisms also require further attention, with specific regard to the issues present in self-regulation.

Subsequently, the extended effects of white collar crime at the community level are under-examined in the literature (Becker et al., 2000). While it is widely agreed upon that precise measures of the economic impact of crimes of the upper-class is unattainable, there has been little effort to uncover the spillover effects in the local regions. The common buzzwords of diminished confidence in the market and public institutions, damaged collective morale, heightened psychological stress, and breeding increased deviance are frequently used, but there does not appear to be any concrete effort to move beyond these buzzwords. Similarly, there is a clear focus of many researchers on gathering the public's perception regarding the seriousness of white collar crime, but there is no extension to display its impacts.

The contribution of the thesis is to help close the gap with respect to identifying meaningful shortcomings of Canadian real estate anti-money laundering activities and its effects on the market. Moreover, this study aligns with Kilduff (2006), who notes that, "the route to good theory leads not through the gaps in the literature but through engagement with problems in the real world" (p. 252). To this end, the thesis addresses the following research questions: (1) Does financial transaction reporting increase home prices?; (2) Does suspicious transaction reporting in the real estate sector decrease home prices?; and (3) Does strengthening financial transaction reporting generally, and suspicious transaction reporting specifically, improve home ownership affordability?

CHAPTER 3: METHODOLOGY

Added to the already troublesome effort to detect financial crime in general terms, the literature review summarizes that money laundering thrives in the real estate market due to a lack of regulation specifically surrounding beneficial ownership. It further synthesizes the harms as psychological and financial, both on a micro (individual) and macro (collective) level. However, estimations of money laundering have been criticized for a lack of empirical grounding, and thus there remains a lack of research on . Therefore, the hypotheses listed below help fill this void by empirically examining the impact of money laundering on the community, as it relates to challenges of home ownership specifically.

3.1 Hypotheses

Based on the current position of the literature on the impact of money laundering, the following hypotheses paralleled to the above aforementioned research questions, have been developed:

H1. Rising FINTRAC financial transaction reporting increases home prices.

H2. Rising suspicious transaction reporting in the real estate sector decreases home prices.

H3. Stronger financial transaction reporting generally, and suspicious transaction reporting specifically, improves home ownership affordability.

3.2 Sample Description and Collection Process

The data examined in this thesis draws on several datasets, including the MLS Home Price Index, FINTRAC financial transaction reporting data, and Statistics Canada's Canadian Income Survey. Each are elaborated on in this section.

First, the MLS Home Price Index measures "home price levels and trends" through information provided by 19 real estate boards across Canada. It covers approximately two-thirds of Canadian real estate activity, including the regions of Calgary, Fraser Valley, Greater Montreal, Greater Vancouver, Greater Toronto, Regina, Saskatoon, Ottawa, Vancouver Island, Victoria, Greater Moncton, Guelph, Oakville-Milton, Edmonton, Barrie & District, Hamilton-Burlington, Niagara Region, Okanagan Valley, and Winnipeg. The dataset includes information on the house price index (HPI) and benchmark price for a single family, one-story, two-story, townhouse, and apartment style homes, as well as the composite measurements by month and region between January 2005 and December 2018. The house price index (HPI) is calculated as a percentage change from January 2005, of which the base/reference period's HPI is equal to 100. Therefore, if the composite HPI was 150 in January 2007, for example, then prices for all Canadian housing type are 50% higher than they were in January 2005.

Next, the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) is the Canadian Financial Intelligence Unit (FIU) which aims to identify and prevent money laundering and financing of terrorist acts. FINTRAC operates separate from other public safety agencies under the Proceeds of Crime Money Laundering and Terrorist Financing Act (PCMLTFA), and relays its findings to the Minister of Finance. The dataset includes information on the frequency of reports by type, the sector to which

the entity belongs, the reporting month, fiscal year, and geographic location using the first 3 digits of the postal code and national coverage. The activity sectors include accountants, banks, British Columbia notaries, casinos, credit unions, dealers in precious metals and stones, life insurance, money services businesses, real estate, securities dealers, and trust and loan companies. Importantly, the report types are suspicious transaction reports (STRs), large cash transaction reports (LCTRs), electronic fund transfers (EFTs), and casino disbursement reports (CDRs).

STRs must be submitted to FINTRAC when there is, at minimum, "reasonable grounds to suspect" money laundering or terrorist financing based on an evaluation of "facts, context, and indicators". This evaluation ultimately aims to differentiate between legitimate and illegitimate market activity. To do so, contextualization is particularly relevant as it relates to a general understanding of business activities and transactions, knowledge of customers' background and details, and how it connects to the overarching Know-Your-Client (KYC) principles. There is no minimum monetary value for filing a suspicious transaction report. On the other hand, LCTRs, EFTs, and CDRs all use a minimum $10,000 threshold within 24 hours to mandate reporting. Specifically, LCTRs are required when this amount is received, EFTs are required when this amount is transferred into or out of Canada, and CDRs are required when this amount is disbursed to the same individual. The reporting period covers April 2011 to December 2018. FINTRAC is bound by law to anonymize all data collected.

Finally, Statistics Canada provides data on the "Income of individuals by age group, sex and income source, Canada, provinces and selected census metropolitan areas." This information is drawn from the Canadian Income Survey (CIS), an annual,

national survey by Statistics Canada. The sample consists of 56,000 households from the Labour Force Survey (LFS) through probabilistic, stratified, multi-stage selection techniques. The LFS is distributed through complex random sampling. Participation in the CIS is voluntary. Interviews are conducted over the phone or in person, while other eligible candidates are offered to complete the online survey. One member of each household is designated as the knowledge representative for cost purposes. The CIS is ultimately a cross-sectional survey, which is combined with the LFS and tax data from the Canada Revenue Agency (CRA).

There are 6 and 8 independent samples, also referred to as rotation groups, of the Labour Force Survey in Canadian provinces and territories respectively. Each provincial group progresses through the survey over 6 months. The 2018 Canadian Income Survey used in this thesis draws on provincial rotation groups ending in the months of January to June 2019 and all territorial dwelling groups. Therefore, the data collection period is between January 1, 2019 and July 2, 2019.

3.3 Empirical Analysis and Data

3.3.1 Data and Hypotheses Operationalization: Hypotheses 1 and 2

The MLS and FINTRAC datasets were filtered to only look at the national/aggregate data points. As well, they were sorted by month-year with missing time periods in national FINTRAC data being replaced with zeros, given the lack of reports received during these intervals. The timeline used was April 2011 to December 2018 since this was the shared timespan by both datasets. Thus, the sample size is 93 months with no missing responses for any of the variables. The data from MLS and

FINTRAC was thus combined hinging on the month-year. The key variables included from MLS were “composite hpi”, and subsequently the HPI for each dwelling type: “single family”, “one storey”, “two storey”, “townhouse”, and “apartment”. The variables included from FINTRAC were the national “number of all financial reports for all activity sectors”, “number of suspicious transaction reports for all activity sectors”, “number of all financial reports for real estate sector”, and “number of suspicious transaction reports for real estate sector”.

First, univariate statistics for each of the above-listed scaled variables was run in SPSS. Specifically, frequency tables with measures of central tendency (mean and median), measures of dispersion (standard deviation, variance, range, minimum, and maximum values), kurtosis, and skewness were included, as well as histograms with the normal curve. This highlights the frequencies, trends, and patterns of each variable. Univariate statistics is especially useful because it shows if the requirements (i.e., normality) are met before proceeding to more advanced, inferential statistical tests. The frequency tables and distributions also illuminate the raw number of reports filed which is useful in and of itself to understand the extent, or lack thereof, of financial transaction reporting by financial institutions and designated non-financial business and professions (DNFBPs). As well, time-series graphs were created for the FINTRAC variables to show their trends and patterns over the 93-month period.

Next, recoding of the scaled variables from FINTRAC was completed in Excel. The scaled variables were recoded to be nominal dichotomous variables, split based on their median values. The lower range (below median) was labelled “low”, and the higher range (above median) was labelled “high”. The decision to create dichotomous

independent variables for level of reporting was based on the need to ensure sample size adequacy for each level. In particular, the range for suspicious transaction reports per month is low, and thus splitting into more than 2 groups for the purpose of analysis was not feasible. Therefore, the number of reports received variables were transformed from continuous numerical variables (raw number of transactions per month) to nominal dichotomous categorical variables (level/extent of volume of transactions per month).

Finally, given the limitation of recoding, one-tailed independent-samples t-tests were run in SPSS using "composite HPI" as the dependent variable and the recoded levels of national financial and suspicious transaction reports as the independent variables. This was performed to assess: H1) the relationship between the level of financial transaction reporting in all sectors with respect to composite HPI; and H2) the relationship between the level of suspicious transaction reporting specifically in the real estate sector with respect to composite HPI. Moreover, the 2 independent samples t-tests for hypotheses 1 and 2 respectively identify if significant average differences exist (and the amount of difference) between the 2 levels of reporting with respect to national home prices at the .001 significance level, to ultimately inform policy decisions. Homogeneity of variances was also accounted for, using the appropriate t-statistic based on the Levene's test.

Thereafter, independent samples t-tests were run for the 2 independent variables of level of financial transaction reporting in all sectors and the level of suspicious transaction reporting in the real estate sector with the dependent variable replacing composite HPI, instead using each dwelling type (single family, one storey, two storey, townhouse, and apartment). Ultimately, this technique tested if money laundering

increases home prices across the board, using financial reporting methods (H1: all financial transaction reports; and H2) suspicious transaction reports in real estate) as a proxy measure.

Additionally, the correlation coefficients for composite HPI and financial transaction reporting, and composite HPI and suspicious transaction reporting in real estate were calculated using Excel. The purpose of the correlation coefficients is to determine if there is an association between the pair of variables, and if so, the direction and strength of the correlation. This aids in approximating the behaviour of housing prices based on the extent of reporting.

3.3.2 Data and Hypotheses Operationalization: Hypothesis 3

The MLS, FINTRAC, and CIS data sets were used to compute the growth rates of the composite home price index, national financial transaction reporting for all activity sectors, national suspicious transaction reporting for all activity sectors, and median income respectively. Specifically, 2012 was used as the first year for comparison, given that it was the first full year of reporting shared by the 2 datasets. For the national financial transaction reporting and national suspicious transaction reporting variables, the medians were calculated for each year. For the composite HPI, the annual median was also calculated. The yearly growth rates were computed by dividing the current year's figure by the previous year's figure and subtracting 1.

Annual growth rates were necessary because the median income figures were provided in a yearly format. As well, it highlights the big picture trends and changes of the data, a goal which is inherent to the nature of the graph being time-series. The

decision to use the annual growth rate comparison method was similarly made to look at the overall trajectories of the key variables. Therefore, the growth rates were plotted from 2013 to 2018, and the comparative analysis was performed, looking at interactions amongst the growth rates of composite HPI, national STRs, and income during this time period. This ultimately showcased the fluctuations in affordability of home ownership and the potential effect of financial transaction reporting on this relationship. The 4 trendlines were plotted in the graph , with x as year and y as the growth rate with labelled percentage intervals of 5. Finally, as in the analysis for hypotheses 1 and 2, the correlation coefficients were calculated for each pair of variables. Most importantly, the correlation coefficients between income and all other variables were used to determine the strongest association.

CHAPTER 4: EMPIRICAL RESULTS AND FINDINGS

4.1 Univariate Statistics

4.1.1 Composite HPI

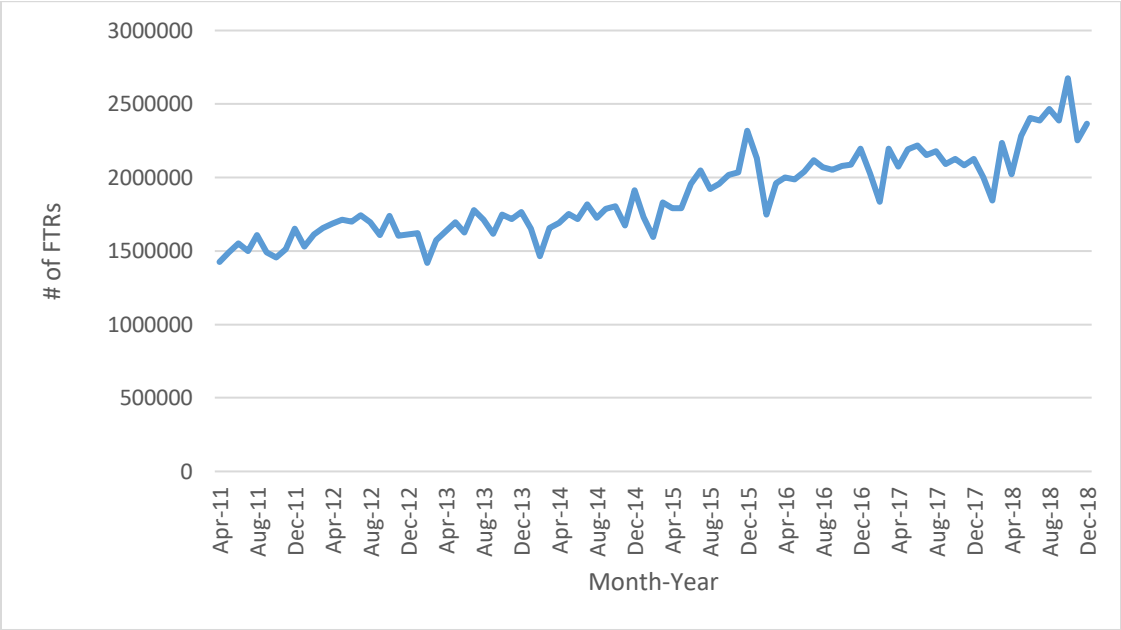
The comparison (base) point for house price index is 100 (January 2005). The average composite home price index is 185.368 with midpoint 173.3. This means that on average, Canadian home prices were approximately 85% higher than they were in the reference period, January 2005. Therefore, half of the months in the sample had composite home price indexes higher than 173.3 and half had lower. Only one-quarter of months had scores higher than 215.05. Of note, there is no repetition of composite HPI throughout the 93 months, indicating there is consistent fluctuations in Canadian real estate prices. The standard deviation is relatively low at 30.6518. The kurtosis statistic is -1.309 and the skewness statistic is .517. Thus, the distribution has light tails and is platykurtic, slightly outside of the acceptable variation for normality. As well, the distribution has a slight positive skew, with a longer right tail indicating a few extremely high scores. Nonetheless, the distribution was deemed acceptable and not adjusted in order to look at the full range of home prices, including the natural variation and extreme scores.

4.1.2 Number of All Financial Reports for All Activity Sectors

The average number of monthly financial reports of all types and for all activity sectors is 1,873,582.48. The midpoint of the distribution is 1,790,491, suggesting that half of all months had more than this amount of reports and half had less. The mean distance of values from the mean is 276,291.941, demonstrating relatively little variance.

Overall, throughout the 93 months surveyed, the frequency of financial reports is never duplicated. Three-quarters of the months had less than 2,081,772.50 reports, while the highest reported number of reports in a single month is 2,675,006. As displayed in Figure 4.0, there is an upwards trajectory of Canadian financial transaction reporting. In April 2011, 1,423,089 financial reports were submitted across all sectors, increasing steadily in frequency upto the last month of December 2018 when 2,367,126 were completed (see Figure 4.0). Overall, this data suggests that the frequency of all financial transaction reports monthly is very high. Further analysis, as demonstrated in the coming sections, is needed to explore the utilization and role of the various report types.

Figure 4.0 FINTRAC Financial Transaction Reporting in Canada (April 2011 to Dec 2018)



4.1.3 Number of Suspicious Transaction Reports for All Activity Sectors

The mean number of suspicious transaction reports for all activity sectors is 9,772.04 per month. The median is 8,523 indicating that half of the 93 months had more than 8,523 total suspicious transaction reports and half had less. The standard deviation of the distribution is 4,198.727 thus suggesting a moderately high degree of dispersion. The highest number of suspicious transaction reports for all activity sectors is 23,307 in a month, whereas the low is 5,137 in a month, equating to a total range of 18,170. Overall, only one-quarter of the months received more than 11,106 suspicious transaction reports. This shows that it is the exception rather than the common occurrence for suspicious transaction reports to amount to more than 11,106 in a one-month timespan. Similar to the number of all report types for all activity sectors, each period had a unique frequency of reports, illustrating significant variation in the extent of suspicious transaction reporting by month.

4.1.4 Number of All Financial Reports for Real Estate Sector

The average number of all financial report types in the real estate sector is close to 6 (5.90) per month. The midpoint of the distribution is 5, demonstrating that half of the months had more than 5 reports in the real estate sector and half had less. The standard deviation is 4.597, suggesting a significantly large spread in the distribution of scores from the mean. Specifically, monthly financial transaction reports for the real estate sector amounting to between 1 and 9 re-occur more frequently than those amounts 10 to 21. The greatest reported number of financial transaction reports from the real estate sector in a one-month period was 21, whereas other months had no reports at all. This means, *at most*, for all of Canada and all applicable report types (LCTR, EFT, and STR),

only 21 reports were filed in a one-month period related to the real estate sector. Moreover, suspicious transaction reports and large cash transaction reports comprised the large majority of report types for the real estate sector, with only 1 electronic funds transfer reported and no casino disbursement reports. Overall, only 21.5% of all months experienced more than 8 reports. Altogether, the finding of such low overall financial reporting for real estate transactions is concerning.

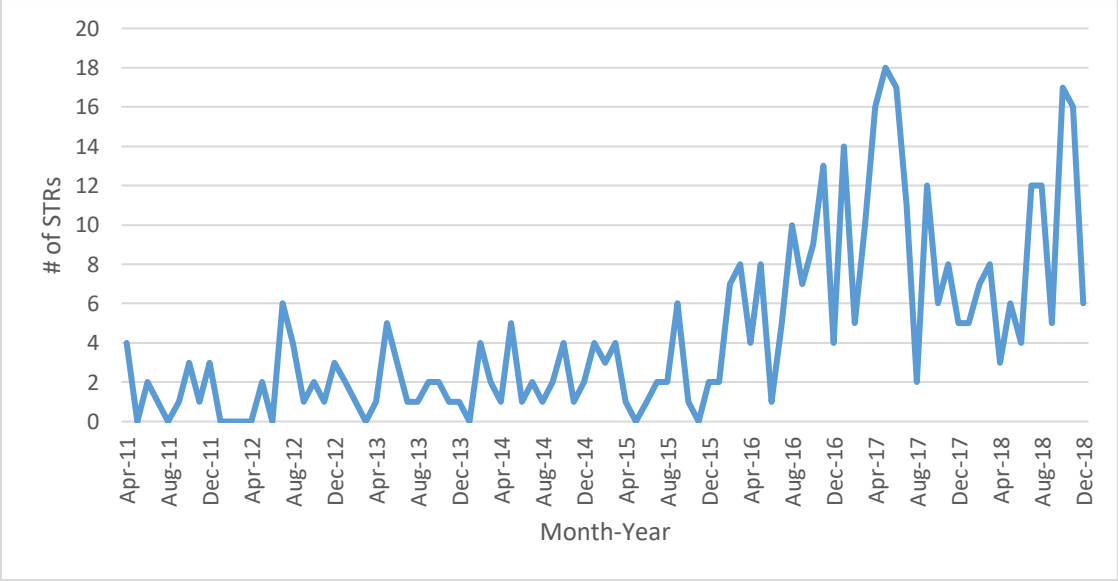
4.1.5 Number of Suspicious Transaction Reports for Real Estate Sector

The mean number of suspicious transaction reports in the real estate sector is 4.39 per month. The median is 3, indicating that half of all months had more than 3 and half had less than 3 suspicious transaction reports. The standard deviation is quite high at 4.494, and the range is 18 suspicious transaction reports at the highest and none at the lowest. However, 75% of the months had less than 6 suspicious transaction reports. Most commonly, there is only 1 suspicious transaction report; 19 of the 93 months had only 1 suspicious transaction report (11.8%). Secondly, there were 15 months which had only 2 suspicious transaction reports, and 11 months with no suspicious transaction reports at all.

As shown in Figure 4.1, at the beginning of the period in April 2011, only 4 suspicious transaction reports were filed from the real estate sector, and at the end of the period in December 2018, still only 6 were documented (see Figure 4.1). Therefore, while there were visible fluctuations throughout the 7 years analyzed, significant improvements were not noticeable. The overall lack of suspicious transaction reports related to real estate is alarming, and indicative of its disintegration with the Proceeds of

Crime Money Laundering and Terrorist Financing Act PCMLTFA's recommendations for the real estate sector as a designated non-financial business and profession (DNFBP).

Figure 4.1 FINTRAC Suspicious Transaction Reporting in Canadian Real Estate (April 2011 to Dec 2018)



4.1.6 Number of Large Cash Transaction Reports & Electronic Fund Transfers for Real Estate Sector

The average number of large cash transaction reports in the real estate sector is 1.51, with the midpoint as 1. Overall, roughly three-quarters of the months had less than 2 large cash transaction reports. Predominantly, 28% of months had only 1 large cash transaction report, 26.9% of months had no large cash transaction reports, and 22.6% of months had 2 large cash transaction reports. The standard deviation indicated a large amount of spread, at 1.307. In summary, it is evident that large cash transaction reports represent a minority of financial reports submitted from the real estate sector. Similarly, across the 93 months included in the sample, only once was an electronic funds transfer

filed from the real estate sector, in June 2018. Taken altogether, it is strikingly apparent from the ability to count on one hand the number of LCTRs and EFTs submitted for all of Canada in each 1-month timeframe, that the real estate industry is not adequately participating in anti-money laundering practices.

Table 4.0 Frequencies and Proportions of Relevant FINTRAC Reports by Sector (April 2011 to Dec 2018)

Report Type, Sector	Total Reports (04-2011 to 12-2018)	Minimum Number of Reports (per month)	Maximum Number of Reports (per month)	Average Number of Reports (per month)	Noteworthy Report Proportions
All financial transaction reports, All sectors (FTR)	174,243,171	1,256,355	2,675,006	1,873,582	100%
Suspicious transaction reports, All sectors (STR)	908,800	5,137	23,307	9,772	STR/FTR = 0.52%
All financial transaction reports, Real estate sector (FTR RE)	549	0	21	6	FTR RE/FTR = 0.0003%
Suspicious transaction reports, Real estate sector (STR RE)	408	0	18	4	STR RE/STR = 0.04% STR RE/ FTR RE = 74.32%
Large cash transaction reports, Real estate sector (LCTR RE)	140	0	6	1.51	LCTR RE/ FTR RE = 25.5%

Electronic fund transfer report, Real estate sector (EFT RE)	1	0	1	.01	EFT RE/ FTR RE = 0.18%

4. 2 Inferential Statistics

4.2.1 Hypothesis 1: Rising financial transaction reporting increases home prices

Research Question: Is there a significant mean difference in the composite home price index (DV) between levels of national FINTRAC financial transaction reporting (IV)?

Using the level of Canadian aggregate financial transaction reporting (STRs, LCTRs, EFTs, and CDRs) as a proxy measure of financial crimes, the research hypothesis assumes the market reflection to be increased home prices. This is due to the predicted infiltration of criminal funds into the real estate sector, thus artificially inflating home prices. The results found that the mean composite home price index for the low reporting level is 159.59, and for the high reporting level is 210.245 with sample sizes of 46 and 47 months respectively. This means that in comparison to the reference period of January 2005, months with a higher level of financial reporting had home prices 110% higher, and months with a lower level of financial reporting had approximately 56% housing prices. The HPI differences between the low and high financial transaction reporting levels are markedly spread apart, indicating that as crime rises (measured by the level of financial transaction reporting across all industries), home prices rise in parallel. The Levene's test of equality of variance is statistically significant (F=64.278, .000, $p<.001$), thus equal variances are not assumed. The corresponding t-statistic is -14.032 with significance .000 ($p<.001$), therefore demonstrating that there is a significant

average difference of 50.2947 in the composite home price index between the low and high levels of reporting (see Table 4.1). Therefore, the null hypothesis is rejected given the findings that the composite home price index was greater when the frequency of financial transaction reporting was ‘high’.

Additionally, significance was found (.000, $p<.001$) between the level of financial transaction reporting in all sectors and each dwelling type (single family, one storey, two storey, townhouse, and apartment). Similarly, the average HPI for each type was greater for the ‘high’ level of reporting compared to the ‘low’ level. The greatest mean difference (55.70) observed was for the two-storey dwelling type, whereas the minimum mean difference in HPI (45.68) was found for apartments, highlighting an approximately 10% difference between the two. Therefore, it can be noted that the most substantial pricing differences between the low and high levels of reporting is in relation to property expensiveness (i.e., significant average differences reported for: (1) two storey= 55.70, (2) single family= 51.92, (3) townhouse= 49.59, (4) one storey= 46.04, and (5) apartment= 45.68). There is also a very strong, positive correlation between financial transaction reporting (not recoded) and composite HPI ($r=0.88$, p=unknown). In summary, it is discernible that overall, as financial transaction reporting increases, home prices increase regardless of housing type. This is because with transaction reporting used as a proxy measure for financial crimes, it is understandable that as financial crime rises, home prices will also rise. This is particularly justified given that money laundering allows illicit funds to enter the legitimate economy, thus increasing market competition and artificially inflating home prices.

4.2.3 Hypothesis 2: Rising suspicious transaction reporting in the real estate sector decreases home prices

Research Question: Is there a significant mean difference in the composite home price index between levels of national suspicious transaction reporting in the real estate sector?

Using the level of Canadian suspicious transaction reports in the real estate sector as a measure of money laundering intervention, the research hypothesis assumes a positive effect on home prices. Specifically, higher levels of STRs for real estate are predicted to improve home ownership affordability measured by a reduction in composite HPI. Moreover, the findings suggest that the mean composite home price index for the low reporting level is 166.153, and for the high reporting level is 203.381 with sample sizes of 45 and 48 months respectively. This means that for months with a high level of STRs filed by the real estate industry, home prices were 103% higher than the reference period of January 2005, and for months with a low level, home prices were 66% higher. The Levene's test of equality of variance is statistically significant (F=36.342, .000, $p<.001$), thus equal variances are not assumed. The t-statistic is -7.491 with significance .000 ($p<.001$), therefore demonstrating that there is a significant average difference of 37.2279 in the composite home price index between the low and high levels of suspicious transaction reporting in the real estate sector (see Table 4.1). However, the null hypothesis was not rejected given the increased composite HPI for higher levels of suspicious transaction reporting in the real estate sector. Moreover, the inverse relationship which was expected was not found.

Additionally, for the dwelling types of single family, one storey, two storey, townhouse, and apartment, significance was found (.000, $p<.001$) between the level of

suspicious transaction reporting in the real estate sector. Similarly, the average HPI for each type was greater for the ‘high’ level of reporting compared to the ‘low’ level. As was the case in H1, two-storey dwellings experienced the largest average difference in HPI (40.09). The minimum mean difference in HPI was found for one-storey dwellings (33.42), followed by apartments (36.42), single family homes (37.49), and townhouses (37.50). Additionally, there is a strong, positive correlation between suspicious transaction reporting in real estate (not recoded) and composite HPI (r=0.73, p=unknown). Moreover, the trend from H1 repeats in that the largest pricing differences found in the t-tests existed for the more expensive property types. However, the maximum average pricing difference between levels of suspicious transaction reporting in the real estate sector is 40.09, whereas between levels of financial transaction reporting in all sectors it is 55.70 with the minimum being 45.68. This highlights that the differences in HPI are more affected by the latter variable. Further analysis is warranted to determine the use of real estate-related reporting.

In summary, suspicious transaction reporting in the real estate sector was expected to negate the negative effects of money laundering on home prices. However, it was found that, similar to the results of H1, as reporting increased, so did home prices. Since the null hypothesis was not disproved, further investigation is warranted. In particular, the proportion of suspicious transaction reports which comprises the total financial transaction reporting figure, the proportion of real estate-specific suspicious transaction reports which comprise the total suspicious transaction reports, and the proportion of suspicious transaction reports which comprise the total financial transaction reports in the real estate sector, require examination.

Firstly, 0.52% of all financial transaction reports are suspicious transaction reports. Secondly, only 0.04% of all suspicious transaction reports occur in the real estate sector. Similarly, a mere 0.0003% of all financial transaction reports pertain to real estate. Finally, 74.32% of all financial transaction reports in the real estate sector are suspicious transaction reports (see Table 4.0). Yet, looking at the monthly frequencies of suspicious transactions in the real estate sector itself, averaging at only approximately 4 per month on a national level, it is clear that greater action is needed in this sector. Added to this is the fact that within the real estate sector, suspicious transaction reports are the most frequently used tool, representing just under three-quarters of all reports. As well, slightly over half a percentage point of all financial transaction reports are STRs, and similarly, less than one-twentieth of a percentage point of all suspicious transaction reports are in the real estate sector.

Thus, two outcomes are apparent: (1) suspicious transaction reporting is an underutilized tool regardless of economic sector, and (2) the use of suspicious transaction reporting in the real estate sector is grossly underemployed despite being the most commonly used financial report in the sector. Specifically, increased targeted measures in the form of greater STR activity in real estate is needed. This is especially relevant given that more reports would capture a larger portion of the crime committed, but it is likely that a much darker figure would still loom. These findings may also be indicative of why financial transaction reporting more strongly influences differences in HPI. Thus, despite failing to reject the null hypothesis, it has illuminated the underlying issue of an overall lack of real estate participation in anti-money laundering efforts and suspicious transaction reporting broadly.

Table 4.1 Results of Independent Samples T-Tests for Hypotheses 1 and 2

Independent Variables	**T-Statistic, Significance (p)**	**Average Difference (measured in composite HPI)**	**Average Composite HPI by Reporting Level of Independent Variable**
H1: All financial transaction reports, All sectors (FTR)	-14.032, .000	50.29	Low= 159.95 High= 210.25
H2: Suspicious transaction reports, Real estate sector (STR RE)	-7.491, .000	37.28	Low= 166.15 High= 203.38

4.2.3 Hypothesis 3: Stronger financial transaction reporting generally, and suspicious transaction reporting specifically, improves home ownership affordability.

Research Question: Is affordability of home ownership weakening due to financial and suspicious transaction reporting levels?

It can be seen that there is an inverse relationship between the growth rates of suspicious transaction reporting and the composite home price index, and similarly between the growth rates of financial transaction reporting and the composite house price index (see Figure 4.2). That is, predominantly, as suspicious transaction reporting and financial transaction reporting increases, the composite home price index decreases, and vice-versa. As well, there is an observable inverse relationship between the rate of change of financial transaction reporting and income.

To verify the visible relationships, correlation coefficients are useful. As shown in Table 4.2, there is a weak negative relationship between financial transaction reporting

and composite HPI (r=-0.08), and between suspicious transaction reporting and composite HPI (r=-0.16). There is a strong negative correlation between financial transaction reporting and income (r=-0.76), therefore indicating that as financial transaction reporting increases in frequency, income decreases. This can potentially be explained by proxying financial crime with financial transaction reporting, whereby as there is greater criminal activity in the economy, the viability of legitimate work is diminished. Consequently, with less access to funds, entrance into the real estate market is also sacrificed.

Moreover, there is only 1 positive moderate relationship, which is between financial transaction reporting and suspicious transaction reporting (r=0.38). This is understandable given that financial transaction reporting includes suspicious transaction reporting, of which suspicious transaction reporting makes up a minority of all financial transaction reports (noted in the descriptive statistics section above). Finally, all other associations are positive and weak. However, it must be noted that as with hypotheses 1 and 2, since the correlation coefficients were computed in Excel, statistical significance cannot be calculated, and thus represents a limitation of the analysis.

The greatest growth rate on a year-to-year basis is observed for suspicious transaction reporting, followed by the composite home price index, and finally, median income. Specifically, the percentage change on an annual basis ranges from -0.37% to 12.60% for financial transaction reporting, 1.20% to 29.28% for suspicious transaction reporting, 2.41% to 13.39% for the composite home price index, and -0.86% to 2.58% for income. Therefore, the median income between 2013 and 2018 remained relatively stable, while there were moderate fluctuations in the median financial transaction

reporting and composite HPI, and pronounced fluctuations in the median suspicious transaction reporting.

Given the overall positive growth rates generated by each of the 4 variables, it is evident there is an overall, shared upwards trajectory. Of note, since the home price index is increasing at a more rapid rate than median income, it can be inferred that affordability of home ownership is dwindling. Further, the strong growth of suspicious transaction reporting may be aiding in the suppression of the home price index. Altogether, the gap appears to be widening between home prices and income, while suspicious transaction reporting may be acting as an intervening variable for prevention of this effect. It is also necessary to acknowledge the use of median as the measure of central tendency as a potential limitation, given its sensitivity to outliers or extreme scores. Overall, given that the growth rate of median income was relatively stable over time, and the relationships between financial transaction reporting and suspicious transaction reporting in the real estate sector with respect to and home prices were tested in hypotheses 1 and 2 respectively the findings presented in the time-series graph do not add substantial value.

Figure 4.2 Growth Rates of National Financial Transaction Reporting, Suspicious Transaction Reporting, Composite Home Price Index, and Income in Canada (2013 to 2018)

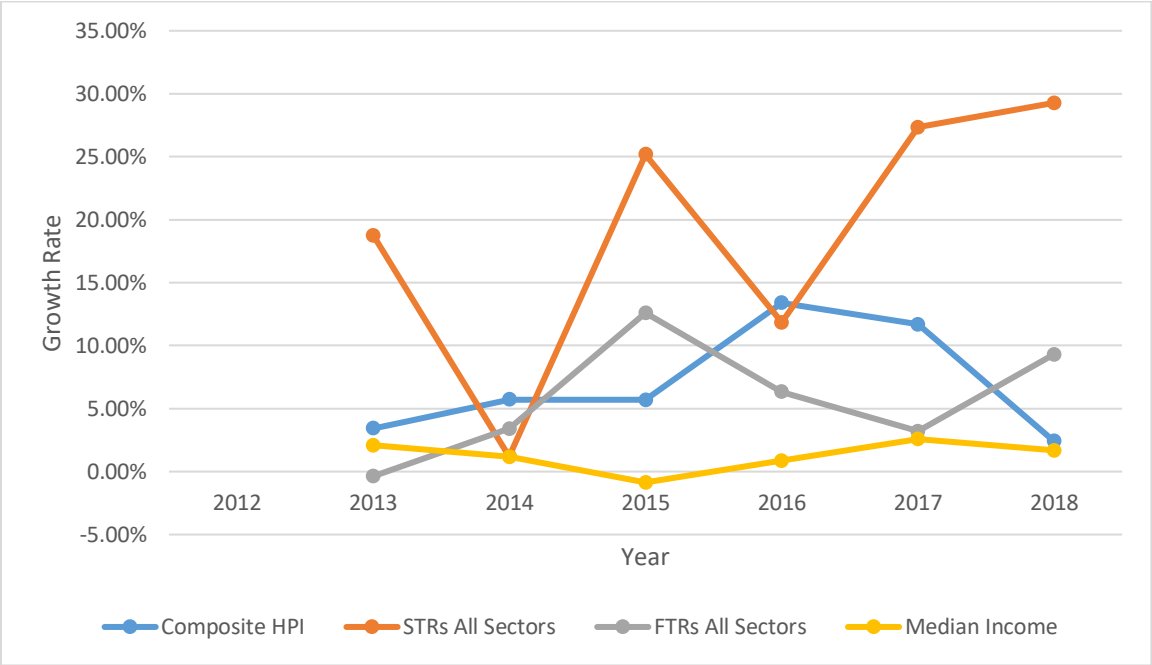


Table 4.2 Correlation Matrix of Median Growth Variables

	Composite HPI	Income	STRs	FTRs
Composite HPI	1.00	0.07	-0.16	-0.08
Income	0.07	1.00	0.10	-0.76
STRs	-0.16	0.10	1.00	0.38
FTRs	-0.08	-0.76	0.38	1.00

Notes: Relationship strength indicated by yellow=perfect, red=weak, green=moderate to strong

CHAPTER 5: DISCUSSION AND CONCLUSIONS

The findings in this thesis indicate that higher overall financial transaction reporting in all sectors, as well as suspicious transaction reporting in the real estate sector specifically, on average, correspond to higher composite home price indices. While this was expected for the first hypothesis (financial transaction reporting in all sectors), it was not expected for the second hypothesis (STRs in real estate sector). This is because financial transaction reporting was used as a proxy measure of overall financial crimes in all markets, whereas suspicious transaction reporting in the real estate sector was used as a proxy measure of anti-money laundering (AML) efforts exhibited by the industry. Thus, while it was expected that as financial crimes rose, so too would the value of residential real estate, as illicit funds permeate the market. However, it was not expected that as real-estate specific reporting increased, home prices would increase, too, as a stronger AML response was thought to combat artificial inflation of home prices.

Upon further analysis of H2 findings, it is apparent that the overall proportion of real estate suspicious transaction reports out of all suspicious transaction reports was only 0.04% with a range from 0 to only 18 reports, at maximum, per month for the latter group. This is even more concerning when we consider that suspicious transaction reports represent nearly 75% of all financial transaction reports filed by the real estate industry at large. Altogether, this exploratory analysis highlights the real estate industry's potential hesitancy to participate in anti-money laundering efforts. Therefore, the proceeding sections will detail proposed strategies to promote real estate activities which would combat money laundering, rooted in the review of literature and report findings. A combination approach is highly recommended given the extent of harms, of which will

need to be carried out and balanced by real estate members, managed by real estate agencies, and enforced by regulators.

5.1 Consequences of Inaction

Real estate is a primary investment for the proceeds of crime (Schneider, 2004). Given the lack of investigation in the real estate market, it is no wonder why criminals choose to invest their profits here. As the literature review suggested, it is a harm in itself when the rewards of crime are greater than legitimate work (Expert Panel, 2019). Specifically, when the proceeds of crime enable individuals to purchase homes which members of the working class are unable to afford, it is evident the market is problematic.

Therefore, in the real estate market, while not as visibly apparent as violent crimes, are nonetheless as devastating to the general public. In particular, the findings which suggested the composite home price index increases as the level of financial transaction reporting (a proxy measure of elite crime) increases is congruent with the tone of the literature which suggests money laundering increases home prices. The rise in money laundering also reduces the confidence in financial markets, and facilitates changes in key market economic variables, including mortgage, interest, and exchange rates (Quirk, 1997). Future studies on this topic should include the above-mentioned variables to further advance the literature on the relationship between and amongst reporting levels and home prices as an indicator of money laundering activity.

The small fraction of suspicious transaction reports is also evident of the overall lack of perceived seriousness of financial crimes. The shielded visibility of money

laundering lends itself to a tainted image of its true dangers. In particular, the emotional damage, including feelings of shame and guilt, suffered by victims of money laundering can be devastating (Levi, 2012; von Lampe, 2008). Thus, to guard against money laundering is to guard against the suffering of its potential victims, of which the scope is all-encompassing.

5.2 Responsibilization of the Private Sector

The FATF's primary anti-money laundering recommendations include improving customer due diligence, record keeping, and suspicious transaction reporting, as well as heightening overall transparency, by financial institutions and DNFBPs, of which real estate belongs (FATF, 2016). Upon evaluation of Canada's AML regime, the FATF (2016) found that greater supervision of transactions and beneficial ownership disclosure was warranted with respect to the real estate sector. The findings of the FATF are consistent with the relevant literature, indicating the hesitancy of the real estate industry to face additional AML requirements, claiming it would disrupt it as a vital economic market (Tellechea, 2008). Furthermore, real estate professions are ill-informed of money laundering indicators, often citing majority or full cash transactions exclusively as suspicious activity (Expert Panel, 2019). Yet, the integration of the proceeds of crime instead typically mimics real market transactions, therefore only adding to the difficulty of detection (Expert, 2019). The issue of the unaware (von Lampe, 2008) and unwilling professional is thus central to the assessment of AML efforts in the real estate sector.

Furthermore, primarily financial institutions and real estate agencies should act in the best interest of the public to intercept money laundering operations. Overall, the frequencies and proportions of suspicious transaction reports in the real estate sector are

consistent with the general tone of the relevant scholarship, illuminating their lack of implementation. Therefore, the overarching recommendation of the FATF, to improve transparency, record keeping, and suspicious transaction reporting has been largely ignored by the real estate industry, and it is evident there is unlikely to be any voluntary progress in the near future. Simply, despite their awareness of FATF recommendations and unique access to the data needed to implement strict measures of financial reporting (Borlini, 2013), stronger government intervention is warranted.

Moreover, regulation recognizes the futility of previous attempts by providing a stronger enforcement mechanism (Meeks, 2006). It is well-documented that as regulation rises, crime falls, and more specifically, that regulation as a proactive approach reduces money laundering activities (Hansen, 2004; Borlini, 2013; Freilich & Newman, 2018). This supports the push for stronger reporting requirements by the real estate industry in particular, especially when the aforementioned harms are kept in mind. Nonetheless, regulation is underutilized as a tool to address crime (Eck & Eck, 2012; Webster, 2015). Modifying the conditions under which crime is enabled to flourish is rarely considered, and the shifting responsibility to block criminal opportunities at places is similarly neglected (Eck & Eck, 2012; Tilley, 2012). Therefore, new and stronger regulations to the real estate industry would impose increased education and training by real estate members.This regulatory approach also focuses on the biggest ‘polluters’ as place managers (representatives) of real estate who have the potential to intercept at critical points in the criminal process (Eck & Eck, 2012; Piquero, 2012).

Additionally, improved and new regulation of the extension of responsibility to gatekeepers in the private sector modifies the risk-to-reward ratio perceived by criminals

or would-be criminals. Specifically, increased surveillance requires increased concealment efforts by perpetrators, and ultimately the opportunity structure changes to their demise. In other words, the more difficult it is to launder money, the less incentive (and more risk) there is to do so (Expert Panel, 2019). Given that the driving force of many criminal operations is the ability to derive a profit, it is vital to interrupt this process of monetary legitimization (Levi, 2002). In summary, increasing the risk structure through the implementation of more stringent financial transaction reporting guidelines, acts as a deterrent to criminal activity.

The proceeding sections describe potential strategies for intervention and enhancement of the risks in the opportunity structure for money laundering in Canadian real estate. Therefore, this thesis demonstrates the applicability of the perspective of environmental criminology, and specifically routine activity theory, to white collar money laundering. Further, the recommendations detailed in the following sections describe the potential of real estate agents as place managers to take further responsibility for their role in the crime triangle of money laundering. While not at a physical business establishment, the extension of the term ‘place manager’ is made as reference to real estate agents as controllers of a legitimate business service. Moreover, the additional measures proposed for real estate agents act as a control mechanism to protect all Canadians as victims of the artificial inflation of real estate caused in part by money laundering. At the same time, the recommendations recognize the conflict of interest felt by real estate agents as place managers, as they are indirect beneficiaries of the criminal activity. Finally, the additional requirements of place managers will aid in deterring the investment of the proceeds of white collar crime in the Canadian real estate market, given

(1) white collar criminals' rational decision-making behaviour, and (2) the concentration of criminal investment at places with the best opportunities. In other words, given the additional proposed regulations imposed upon real estate agents, the risk of detection of money laundering will be strengthened, and thus the attractiveness of real estate will be diminished. While it is clearly the morally compliant route, it will not be easily nor readily adopted. This is because the shifting responsibility comes at a steep monetary and resource cost to businesses, especially smaller and independent chains (Borlini, 2013). As well, turning away business impedes corporate, shareholder, and employee revenues. Therefore, increased sanctions for non-compliance and/or rewards for adherence are needed to remedy conflict of interest concerns (Levi, 2012). If stricter measures are not taken, real estate organizations will continue to benefit from the proceeds of crime, as they do not fear repercussions or feel otherwise motivated to participate in AML strategies (Simpson, 2013).

5.3 Proposed Recommendations to Combat White Collar Money Laundering in the Canadian Real Estate Sector

5.3.1 Commission Incentive

Given the results that only about half a percent of all financial transaction reports are of the suspicious transaction type, it is discernable that, regardless of industry divisions, it is a grossly underapplied tool. While the real estate sector is illuminated as a poignant threat to financial markets, economies, and communities, it is also clear that greater action is needed overall to educate on, encourage, and enforce suspicious transaction reporting. Yet, it is understandable why other sectors have similarly not taken additional steps to intercept the criminal process given their fiscal conflict of interest.

Moreover, like real estate agents who benefit from the commission of a sale (fraudulent or not), financial institutions and private lending institutions also reap the rewards of any and all financial transactions. More specifically, banks profit off of their customers, whether it is from account fees, service charges, mortgage premiums, or otherwise, servicing a customer's financial protection, borrowing, and investment needs directly benefits the institution (Cherney, 2018). Therefore, there is a conflict of interest for financial institutions, insurance brokers, and brokerages, which exists simply because a customer equates to revenue for the company, regardless of the type of customer or his/her intentions.

Furthermore, based on the findings in this paper which illuminate that suspicious transaction reporting is significantly under-utilized overall but particularly in the real estate sector, it can be argued that greater incentives are warranted to encourage participation. The findings that there is an overall lack of financial and suspicious transaction reporting is congruent with the estimates by Transparency International (2019) that detection of money laundering in Canada is extremely low, resting at less than 1%. They are similarly in parallel to the FATF's (2016) finding that greater surveillance and reporting is necessary by the real estate industry. Therefore, given that suspicious transaction reporting is known to be a strategy which decreases money laundering (Kemal, 2014), its under-application is enabling money laundering to damage the economy.

Moreover, given that real estate agents' income is largely based on commissions from property sales, there is an apparent conflict of interest when intercepting fraudulent purchases. That is, if a transaction is reported as suspicious, the agent will not profit from

the sale and thus loses his/her source of income. In order to offset these risks to the real estate agent, one recommendation is to offer a fixed percentage (of the original home sale price) to agents who report suspicious activity which is found to be fraudulent. A percentage-based incentive is preferred over a flat-rate, given the commission received from home sales is based on a fraction of the sell price. In conjunction with the commission incentive to encourage suspicious transaction reporting by real estate agents, further education and training will be warranted to teach sector-specific money laundering indicators and stronger know-your-client (KYC) principles. In doing so, it may present as favourable to partner with financial institutions to access shared customer insights, and work collaboratively to extend guardianship.

Consistent with Moore and Mill's (1990) argument that white collar offenders should be required to pay monetary damages, it is suggested that home buyers must pay this fixed percentage upfront as a non-refundable portion of deposit. In cases where a suspicious transaction report is filed and determined to be of criminal intent, the real estate agent would be nonetheless entitled to the income percentage. Otherwise, once the buyer pays the rest of the purchase price to the seller, the seller would remit the real estate agent's commission as it was already paid. Therefore, this strategy does not impose any additional costs to the public, however government oversight to ensure compliance would be necessary. Monthly audits on real estate companies are suggested, given the ability to compare performance based on the already compiled monthly, historical figures. One downside must be noted for this approach, which is that white collar money launderers have extensive access to capital, and thus fines may not be considered a pertinent risk (Weatherby et al., 2016). Nonetheless, it still makes clear to criminals or

would-be criminals the heightened AML regime adopted by the real estate sector, especially given their carefully calculated integration decisions for detection purposes.

5.3.2 Beneficial Ownership Transparency Database

Moreover, the primary overarching method used to invest the proceeds of crime in real estate is non-disclosure of beneficial ownership (TI, 2019). More specifically, nominees or shell companies are used to conceal the true beneficiary of the asset and its wealth/growth (Expert Panel, 2019). The practice of not associating one's own name with a sizable asset such as real estate goes against both personal and business financial sense, a key indicator of fraudulent behaviour (Sterling, 2015). Therefore, suspicious transaction reports should be filed when the beneficiary is unable to be identified. This represents a cue in the contextualization analysis of 'reasonable grounds to suspect' money laundering. Some red flags which should be used by real estate agents include a mismatch between employment category/status and income/wealth, the use of a corporation's title, and a high percentage cash investment.

Specifically, in Ontario, for example, using Form 630, known as the Individual Identification Information Record, the Nature of Principal Business or Occupation should align with the type/price of the property being purchased. As well, employment letters or alternative proof of employment should be required for validation purposes. In cases where it does not align, Section B: Verification of Third Parties should be deemed especially important, with an emphasis placed on obtaining Third Party Record. Nonetheless, clients may opt to not disclose third party involvement, at which point there may be reasonable grounds to suspect money laundering and file a suspicious transaction report. However, in cases where the third party beneficiary is identified, this information

should be compiled in a national database, to be discussed further in the following paragraphs.

In addition to the recommendation of heightened suspicious transaction reporting in the real estate industry using the absence of beneficial ownership disclosure as an indicator of suspicious activity, conjunctive tools should also be strongly considered. Furthermore, given the extent of money laundering in Canada, valued at an estimated $47 billion in 2018 and increasing property prices in BC by approximately 5% (Expert Panel, 2019), it is evident with the findings in this thesis that the reporting levels are not sufficiently capturing the size of money laundering. Therefore, greater efforts are needed beyond motivating real estate professionals to participate in suspicious transaction reporting, as detailed in this section.

In adherence with the counsel provided by the FATF (2016) to improve transparency of beneficial ownership, the expert panel on money laundering in BC real estate (2019) similarly denotes the necessity of distinguishing the beneficial owner from the legal person or owner. To do so, they urge that beneficial ownership disclosure should be required for 10% or more, as well as kept in a national registry, similar to the Land Ownership Transparency Act (LOTA) in BC (Expert Panel, 2019). Moreover, a Canada-wide approach in the form of a national database to track/compile beneficial ownership of real estate is strongly recommended to improve coordination and data access between regions (Expert Panel, 2019). To monitor compliance, a means-based regulatory tool is proposed, with the method as the measurable variable. This type of regulation acknowledges the inadequate efforts of voluntary participation and innovation previously, avoids potential ‘window dressing’ outcomes, and is rooted in the academic discourse

and intergovernmental recommendations (Meeks, 2016). It is necessary to acknowledge the pushback which may be experienced, including demands that mandatory beneficial ownership disclosure infringes on privacy rights.

Additionally, beneficial ownership of property is commonly concealed using corporate titles (Expert Panel, 2019), especially in the case of white collar money laundering. Corporate purchases of residential property in the Greater Toronto Area account for roughly half of all homes valued at greater than $7 million (TI, 2019). This relationship is a likely indicator of high value purchases with the proceeds of white collar crime. Furthermore, this is consistent with the findings in this paper that higher levels of financial transaction reporting in all sectors, as well as higher levels of suspicious transaction reporting in the real estate sector, are matched with higher average home price indices. It is therefore necessary to extend the aforementioned recommendations of mandatory beneficial ownership disclosure and registry to that of corporations' purchases of residential property. Added to this, further requirements should be imposed upon corporate buyers. Some potential strategies include diminishing the limited liability of shareholders and implementing a corporate ownership transfer tax upon the purchase of property.

5.3.3 Improved Public Awareness

Finally, greater public awareness of white collar money laundering in the real estate sector is also important. In particular, the federal government should develop educational campaigns to illuminate the actions taken against the investment of proceeds of crime in property. This recommendation is consistent with the tone of the literature that to create a collective shift in perspective, education is needed (Weatherby et al.,

2016). This reflects the suggestion that policy decisions should bear in mind the current perceptions of money laundering's seriousness and threat potential (Levi, 2012; Levi, 2014). Moreover, the benefits of this would be far-reaching and numerous. First, the problem of money laundering which typically goes unnoticed by society is highlighted. Therefore, individuals are more informed of the occurrence and associated risk, thus also increasing the level of fear and felt need for action to prevent it. In turn, this would hopefully shift the perception of 'criminal' away from the urban visible minority. As a result of increased awareness, increased public pressure is also applied to hold the relevant parties responsible to protect society. Specifically, the real estate industry would be scrutinized with respect to their upholding of suspicious transaction reporting, record-keeping of beneficial ownership, and additional KYC principles. Agencies who do not meet the new mandated industry-implemented standards would essentially be excluded from the competitive market (Cherney, 2008).

Moreover, real estate agencies are likely to adhere to prevent damaged reputations and further regulations from being enacted, disrupting business practices again. At the same time, faith in the government as a public institution is somewhat restored given its apparent attention to the issue in our collective best interest (Moore & Mills, 1990; Levi, 2012). At the heart of it, all individuals have a stake in this issue, since it affects a prime need of all humans – shelter. That is, the infiltration of money laundering in property investments impedes the ability to both buy and sell homes.

5.4 Limitations

While the findings are indicative of the current state of research on money laundering and the regulations enacted against fraudulent financial activities, it is

necessary to acknowledge the limitations of this study. In particular, the lack of scholarly and policy attention given to combatting the entrance of proceeds of crime into the legitimate economy poses several limitations to this analysis. First, public data on this topic is sparse, and thus the variables available to use in the analysis are limited. Relatedly, FINTRAC should make available to the public more historical years and provide greater granularity of reporting details (purpose, results, etc.) Second, the nature of money laundering is inherently difficult to measure given its purpose is to conceal its roots. FINTRAC only provides the frequency of financial transaction reports by type, region, and date. Additional data which would be useful for the study of money laundering in Canadian real estate would be the indicators/explanations for why each report was filed, as well as their outcome (found to be of criminal intent or not). In particular, with respect to suspicious transaction reports filed by the real estate sector, information regarding whether the report was filed for the buyer or seller, and what the monetary value of the property was, would be beneficial. This further hinders the ability to directly connect money laundering to other variables for the purpose of explanatory or prediction models. Thus, utilizing a reporting as a proxy measure for money laundering should be interpreted with caution.

Third, suspicious activity is not synonymous with criminal activity, and this should be kept in mind when interpreting the frequency distributions and comparison of means tests. Fourth, the observed low frequency of suspicious transaction reporting in real estate is potentially because there is infrequent suspicious activity to report, or that it was detected by another party before it reached the real estate sector (e.g., financial institution, lender, etc.). However, this paper argues that this is not the case, and instead

represents a regulatory loophole whereby real estate agents are not compelled to report suspicious activity, and is thus exploited by money launderers. Finally, regarding the positive, linear relationship noted between the variables, it should be understood as a measure of correlation and not causation. It is beyond the scope of this paper to assess for causation, and thus limited to show a significant analysis of variance as a mechanism to advocate for increased industry financial reporting regulations.

Furthermore, in adherence with the positivist paradigm and quantitative research as a "natural scientific standard of proof" (Seale, 2011, p. 100), there are three criterions that need to be met in order to deem the results as precise and accurate, namely validity, reliability, and generalizability. Firstly, there are 2 types of validity: internal and external. Internal validity is concerned with considering intervening variables' potential impact on the causal explanation. Specifically, this means that control groups should be identified and tested to ensure the original relationship holds true (Seale, 2011). The scope of this project did not allow for a control variable to be tested, so internal validity is at risk. Specifically, macroeconomic tools, such as the interest, inflation, and mortgage rates would be useful to understand external factors which may also be contributing to the riding Canadian home price index over time. Since these figures are typically reported as annual rates, rather than the monthly level of analysis shared by the MLS and FINTRAC datasets, as well as the limited time and scope requirements of this thesis, the application of control variables was not possible. As well, analyses of the relationships in hypotheses 1 and 2, broken down by municipality, would add value to the study. However, the datasets did not share a mutual breakdown of this information. External validity refers to "random sampling and probabilistic reasoning" (Seale, 2011, p. 5), meaning that each

person in the target population had an equal chance of being included in the sample and thus in accordance with the Central Limit Theorem, the larger the sample size, the more closely it will represent that population (and accuracy of results will be improved). The MLS and FINTRAC datasets have adequate sample sizes, hinged on a shared timespan of 93 months.

Next, reliability ensures that the test is measuring what it is supposed to, there is internal consistency, and replicability is possible (Heale & Twycross, 2015). The statistical tests used in this report could be duplicated by another researcher. Finally, generalizability is necessary to say that the results can be applied on a macro level. The findings are on a national scale, and thus generalizability for the Canadian market is inherent. To reiterate, since positivism is about seeing straight to the truth and objectivity is at its very essence, it is fundamentally important to ensure validity, reliability, and generalizability of research results, which must be carefully considered during the research design, collection, and analysis stages.

5.5 Future Research Directions

White collar money laundering in Canadian real estate remains underexplored, especially from a criminological lens. Given the findings of low suspicious transaction reporting in the real estate sector to deter money laundering activities, coupled with the overall result of struggles with home ownership affordability, it is paramount that additional, related research avenues are explored. Firstly, as Braithwaite (1985) notes, regulation and enforcement mechanisms are strengthened with the addition of criminal punishment. Furthermore, with heightened reporting by real estate members, increased suspicious activity will follow, of which will need to be addressed. Therefore, exploring

the routes to criminalization of white collar money launderers, with the knowledge of their upper class influence on the criminal justice system kept in mind (Sutherland, 1940) is essential.

Additionally, the disclosure of white collar criminal's identities (both corporate and individual) should be considered, as publicity of their offenses may act as a severe form of punishment, damaging their reputations and networks (Benson, 1985). Specifically, the viability and routes of publicity and related shaming should be investigated. Subsequently, further research is warranted on the violent tendencies of white collar criminals, especially given the increased risk in connection with detection (Brody & Kiehl, 2010), which is heightened with improved reporting. As well, beyond the recommended stronger regulation and enforcement of suspicious transaction reporting and beneficial ownership disclosure outlined in this thesis, avenues for corporate social responsibility should be examined to go beyond mandated protocols recommended. Finally, the displacement of crime should also be considered, as white collar money launderers will likely move away from investing in real estate as regulation rises, and towards another opportunity.

5.6 Concluding Remarks

This paper has helped fill a research void on crime in the real estate sector by adding a criminological lens and assessments of the effect of money laundering on the real estate market and home ownership affordability. Further, it has extended research on the privileged position that white collar criminals use to integrate their funds into the legitimate market, and consequently deter legal transactions (Quirk, 1997). From the perspective of social justice, it has shown that beyond the harm of crime being more

financially rewarding than legitimate work itself (Expert Panel, 2019), real-estate related money laundering has not been addressed with effective regulation or enforcement. Thus, given the low risks measured by the low level of financial transaction reporting in the sector, and the high monetary rewards of owning property, it is no wonder there is an incentive to offend (Braithwaite, 1985).

Moreover, this thesis has illustrated the ability of real estate members to intercept opportunities for money laundering. It has explored the role of the private sector, specifically the real estate industry, in preventing money laundering. Further, it has shown that there is insufficient action with respect to anti-money laundering efforts on the part of real estate agencies, indicated by a lack of overall financial and suspicious transaction reporting. Therefore, in adherence with the extant review of literature, it is fitting to recommend an incentive to overcome the conflict of interest felt by real estate agents to report a suspicious purchase, to create a national database for disclosure of beneficial ownership, and to further examine corporate purchases of residential property. The beneficial ownership database would also aid in flagging illicit transactions to file a suspicious transaction report. Taken altogether, filling the gap of needed increased surveillance, scrutiny, and regulation of the real estate sector in Canada can help to deter criminal operations domestically, as well as set new standards for anti-money laundering regimes internationally.

Publicizing the new recommended programs would also be extremely advantageous, as it would enhance the perceived seriousness of money laundering by the public, hold the private sector more accountable, and advertise to would-be criminals that Canada has a strict anti-money laundering program in place. Overall, additional

regulations and enforcement act as a strong mechanism to reduce the harms borne by money laundering (TI, 2019; Hansen, 2004), and improves the likelihood of home ownership affordability by reducing illegitimate market transactions (Quirk, 1997). In conclusion, deteriorating the ease with which illicit funds are invested in real estate through the aforementioned strategies acts as a barrier and enhanced risk to white collar criminals attempting to further grow their wealth by exploiting regulatory loopholes.

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