



OPERATIONAL ALERT

Reference: FINTRAC-2022-OA002
September 2022

Laundering of proceeds from illicit cannabis

Purpose

The purpose of this Operational Alert is to support reporting entities in recognizing financial transactions suspected of laundering the proceeds of crime related to illicit cannabis activities. Through financial transaction reports, FINTRAC is able to facilitate the detection, prevention and deterrence of all stages of money laundering (placement, layering and integration) and the financing of terrorist activities by providing actionable financial intelligence disclosures to law enforcement and national security agencies. This Operational Alert details a series of indicators developed by FINTRAC following an analysis of suspicious transaction reports (STRs) related to the laundering of proceeds related to illicit cannabis activities.

Project Legion

is a public-private partnership initiative led by Toronto-Dominion Bank (TD), supported by Canadian law enforcement agencies and FINTRAC. Project Legion targets illicit cannabis activities by focusing on the money laundering aspect of the crime. The objective of the project is to improve the awareness of the crime and to improve the detection of the laundering of proceeds from illicit cannabis.

Background

The *Cannabis Act*, which provides the legal framework controlling the production, distribution, sale and possession of cannabis across Canada, came into force on October 17, 2018.

Only [federal cannabis licence holders](#) are able to grow cannabis for sale to ensure that all legal cannabis products meet the strict product safety and quality control requirements. Provinces and territories are responsible for the regulations and restrictions concerning the sale and distribution of cannabis. Every province and territory in Canada maintains an [official list of authorized cannabis retailers](#) in their respective jurisdiction.

Despite the introduction of the *Cannabis Act*, unlicensed activity related to cannabis continues. According to the [Canadian Cannabis Survey 2021](#), 81% of respondents obtain their cannabis from legal/licensed sources, which included regulated/authorized retailers and storefronts. Conversely, 37% of survey respondents obtained their cannabis from illegal/unlicensed sources, which included unregulated/unauthorized retailers and storefronts. Since respondents could select multiple sources, some obtained their cannabis from both legal and illegal sources.

While more consumers are reporting each year that they [obtain their cannabis from legal sources](#), there still exists a flourishing and illegal cannabis market in Canada. Such illegal markets contribute to increased risk of harm to Canada's financial system and its citizens through significant loss of tax revenue and increased funding of criminal activity by organized crime groups.

What is illicit cannabis?

Illicit cannabis refers to cannabis that is or was sold, produced or distributed by a person prohibited from doing so under the *Cannabis Act* or any provincial Act or that was imported by a person prohibited from doing so under the *Cannabis Act*.

Overview of FINTRAC’s analysis of suspicious transaction reports related to illicit cannabis

FINTRAC analyzed a sample of approximately 5,000 STRs received from March 2020 to March 2021, related to illicit cannabis activities. The majority of these STRs involve the suspected sale and distribution of illicit cannabis by way of unlicensed online dispensaries. However, FINTRAC also identified STRs concerning the suspected production of illicit cannabis.

General money laundering methods

Overall, email money transfers (EMTs), cheques, bank drafts, and cash deposits and/or withdrawals were the primary methods used to move funds derived from illicit cannabis activities. Additionally, FINTRAC observed several money laundering (ML) methodologies, including the use of virtual currencies, nominees¹, front companies owned by the distributors and producers of illicit cannabis, and the layering of funds between related accounts.

Incoming fund transfers from virtual currency dealers into bank accounts were found to make reference to cannabis-related terminology (e.g., “weed”, “pot”, “bud”, “leaf”). These funds were then rapidly depleted from the bank accounts to different virtual currency dealers.

Nominees received excessive funds transfers into their bank accounts from businesses or individuals suspected of operating an online dispensary, and would then transfer the funds to a personal account held by the signing authority of the entity. Some nominees held joint accounts with individuals known or suspected to be involved in illicit cannabis sales.

A wide range of businesses were used as front companies to launder the proceeds of illicit cannabis operations. The most frequently observed businesses included e-commerce businesses in the beauty and wellness industry, food and beverage wholesales, automotive-related businesses, electronics repair businesses, marketing, advertising and consulting, and construction-related businesses. Often there were little to no business-related transactions in the accounts held by these front companies which were owned by suspected distributors and producers of illicit cannabis, their associates and other members of their networks. Many of these individuals owned more than one business and would transfer funds between their business and personal accounts and those of their associates, with no clear purpose.

Following a business account closure, FINTRAC would note the observed opening or use of another account at a different financial institution in a short period of time. Also observed was a seemingly unrelated third-party individual starting to receive EMTs with the same unlicensed dispensary name or email once their associates account has been closed.

Online unlicensed dispensaries

The following suspicious transactional activity is consistent with online illicit cannabis operations, such as sales and distribution.

Excessive volumes of incoming EMTs from numerous unrelated third parties (suspected retail purchasers) were the main deposit activity into personal or business accounts. Remittance information in many of these EMTs made reference to

¹ A nominee is a particular type of party that is authorized to open accounts and conduct transactions on behalf of a person or entity.

cannabis jargon (e.g., “weed”, “pot”, “bud”, “leaf”) and/or an unregistered online dispensary, and often contained a series of numbers and initials consistent with order numbers.

An online unlicensed dispensary would attempt to disguise the purpose of the illicit funds by having customers send EMTs to the attention of various business email addresses or phone numbers. Funds are then accepted into their bank account to which a different email addresses and/or phone numbers were associated.

Networks of numbered companies operate suspected passthrough accounts for an unlicensed dispensary. Although these entities were listed in very different industries, they were linked through financial flows, shared EMT contact information, or shared authorized signatories. The authorized signatories and/or directors of these numbered companies are often younger individuals, with listed occupation indicating student, employed in the service/entertainment industries or unemployed.

The accounts of suspected online unlicensed dispensaries detailed excessive purchases at packaging and mail service businesses, likely for the shipment of product to clients. For example, the wholesale purchase of humidity-controlled packaging from specialty suppliers or food packaging retailers. These purchases were also observed in accounts of suspected illicit cannabis producers.

Cultivation, processing and preparation of illicit cannabis

Transactions were also suspected of being related to the cultivation, processing and preparation of illicit cannabis.

Excessive and atypical utility bill payments were suspected of reflecting unlicensed cannabis grow operations. FINTRAC observed utility payments funded by cash made in the exact amount of the utility bill or a rounded dollar amount. Other atypical utility bill payments observed include an individual making bill payments to multiple hydro accounts, having multiple individuals making payments to one hydro account, and utility bills that are above the expected amount for the clients given occupation and listed address.

Further, these utility payments were often paired with large purchases conducted at businesses selling goods known to be used by the cannabis industry (i.e., hydroponics stores, garden stores, hardware stores, lighting stores). Large purchases towards candy stores and/or kitchen ware stores outside of the expected businesses activity of the client suggests the individual may be involved in producing illicit cannabis edible goods.

Reasonable grounds to suspect and how to use indicators

How reporting entities determine if they submit an STR to FINTRAC (for either a completed or attempted financial transaction) requires more than a "gut feel" or "hunch," although proof of money laundering is not required. Reporting entities are to consider the facts, the context and money laundering indicators of a transaction. When these elements are viewed together, they create a picture that is essential to differentiate between what may be suspicious and what may be reasonable in a given scenario. Reporting entities must reach reasonable grounds to suspect that a transaction, or attempted transaction, is related to the commission or attempted commission of a money laundering offence before they can submit an STR to FINTRAC.

Indicators of money laundering can be thought of as red flags indicating that something may very well be wrong. Red flags typically stem from one or more characteristics, behaviours, patterns and other contextual factors related to financial transactions that make them appear inconsistent with what is expected or considered normal. On its own, an indicator may not initially appear suspicious. However, it could lead reporting entities to question the legitimacy of a transaction, which may prompt them to assess the transaction to determine whether there are further facts, contextual

elements or additional money laundering or terrorist financing indicators that would increase their suspicion to the point where submitting an STR to FINTRAC would be required (see [FINTRAC Guidance on Suspicious Transaction Reports](#)).

Money laundering indicators

Below are money laundering indicators related to illicit cannabis activities derived from FINTRAC's analysis and reflect the types and patterns of transactions, along with contextual factors, which emphasize the importance of knowing your client.

These indicators should not be treated in isolation; on their own, these indicators may not be indicative of money laundering or other suspicious activity. They should be assessed by reporting entities in combination with what they know about their client and other factors surrounding the transactions to determine if there are reasonable grounds to suspect that a transaction or attempted transaction is related to the commission or attempted commission of a money laundering offence.

Several indicators may reveal otherwise unknown links that, taken together, could lead to reasonable grounds to suspect that the transaction or attempted transaction is related to the laundering of proceeds derived from illicit cannabis activities. It is a constellation of factors that strengthen the determination of suspicion. These indicators aim to help reporting entities in their analysis and assessment of suspicious financial transactions.

Indicators of illicit cannabis in relation to online unlicensed dispensaries

- ⊗ Client receives an excessive volume of email money transfers from seemingly unrelated third-party individuals.
- ⊗ Transaction details (contact name, email address, remittance information) make reference to cannabis-related terminology (e.g., weed, pot, bud, leaf) and/or order numbers.
- ⊗ Excessive cash deposits and/or merchant credits that do not appear in line with the stated nature of the business.
- ⊗ Incoming email money transfers are quickly depleted by the purchase of bank drafts and/or cheques to seemingly unrelated third party individuals and/or cash withdrawals.
- ⊗ Different accounts are using the same email money transfer contact information to receive funds (e.g., email address) from third-party individuals or entities.
- ⊗ Client is receiving incoming email money transfers sent to a series of email addresses and/or phone numbers associated with an online unlicensed dispensary, but depositing the funds into their account which has a different email address or phone number listed on file.
- ⊗ Online information links the client's contact information to an unlicensed cannabis dispensary.
- ⊗ An excessive volume of email money transfers occurs in a newly opened personal or business account, or after prolonged account inactivity and does not appear in line with stated occupation or nature of the business.
- ⊗ Newly opened business account lacks open source footprint and has a registered address in a residential area.
- ⊗ Client receives funds transfers from an entity who is suspected of operating an online unlicensed dispensary, and quickly transfers those funds to the personal account held by the signing authority of the entity.
- ⊗ Incoming fund transfer from virtual currency dealers into individual's bank account, makes reference to cannabis-related terminology (e.g., weed, pot, bud, leaf).
- ⊗ Client makes excessive purchases at packaging, shipping, and/or mail service businesses.
- ⊗ Media or law enforcement information links client and/or related individuals/entities to illicit cannabis activity and/or other drug trafficking activities.

- ⊗ Following the closure of the business account of an unlicensed dispensary, a seemingly unrelated third-party individual starts to receive email money transfers from the same unlicensed dispensary operating name or email.

Indicators possibly related to illicit cannabis in relation to the cultivation, processing and preparation

- ⊗ Client makes excessive or atypical utility payments (e.g., bill payments made to different hydro accounts, multiple individuals paying off the same hydro account, payment amount exceeds expected amount for personal consumption, or bill payments that appear excessive given stated occupation and/or address).
- ⊗ Client conducts large purchases at businesses used by the cannabis industry (i.e., hydroponics store, hardware store, and gardening stores).
- ⊗ Cash is used for over-the-counter utility bill payments.
- ⊗ Utility bill payments conducted in multiple over-the-counter locations.
- ⊗ Client has a listed address in one province but is paying large utility bills in another province.
- ⊗ Client provides misleading or falsified documentation concerning cannabis production (i.e., falsified licence certificate for marijuana production).
- ⊗ Large purchases towards candy stores or kitchen ware stores outside of the expected businesses activity of the client.

Reporting to FINTRAC

To facilitate FINTRAC's disclosure process, please include the term **#ProjectLEGION** or **#LEGION** in Part G – Description of suspicious activity on the Suspicious Transaction Report. See also, [Reporting suspicious transactions to FINTRAC](#).

Contact FINTRAC

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Resources

For more information on illicit cannabis, please consult the following resources:

- ⊗ The [Cannabis Act](#)
- ⊗ Health Canada: “[Authorized cannabis retailers in the provinces and territories](#)”
- ⊗ Health Canada: “[Licensed cultivators, processors and sellers of cannabis under the Cannabis Act](#)”
- ⊗ Public Safety Canada: “[Buying Cannabis Online – What You Need To Know](#)”
- ⊗ Statistics Canada: “[Canadian Cannabis Survey 2021](#)”
- ⊗ United Nations: “[World Drug Report 2021 – Booklet 3 – Drug market trends: Opioids, Cannabis](#)”