

Advisory

Cannabis Accounts – Credit Unions

Date: November 10, 2021

Distribution: Credit Unions

Advisory Number: 21-034

BACKGROUND

Credit Unions are designated as reporting entities under the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA)* and have certain obligations to fulfill under the PCMLTFA and associated Regulations. These obligations include a requirement to develop and maintain a compliance program, know their client, report transactions, and keep records. Credit Unions are subject to the PCMLTFA and are required to conduct a risk assessment in respect of their activities.

Next fiscal year, BCFSA will develop and issue a draft Guideline (for consultation) outlining BCFSA's expectations on detecting, deterring, and preventing money laundering and terrorist activity financing, as well as BCFSA's related compliance framework.

As outlined in our Supervisory Framework, BCFSA conducts risk-based supervision. BCFSA applies sound judgement in identifying and assessing risks, and determining, from a wide variety of supervisory and regulatory options available, the most appropriate method to ensure that the risks that a financial institution faces are adequately managed.

Credit Unions establishing deposit accounts or conducting other financial transactions with cannabis businesses are exposed to elevated risk overall. Given the potential for illegal and illicit activities associated with cannabis production and distribution, including money laundering, cannabis businesses are subject to stringent government control and regulations which are not applied to other consumer goods.

PURPOSE

The purpose of this advisory is to inform credit unions that, given the elevated risk associated with the cannabis sector, BCFSA will apply additional scrutiny on accounts and transactions linked to cannabis businesses in line with our Supervisory Framework. In particular, BCFSA will assess the extent to which credit unions are controlling the money laundering risk of processing transactions and proceeds from cannabis businesses, including potential conflicts of interest.

BCFSA will review credit unions' controls to manage risks, including whether:

- the business abides by applicable municipal requirements and is properly licensed for cannabis activities (selling, producing, etc.) from the respective licensing body (e.g. BC's Liquor and Cannabis Regulation Branch (LCRB) and Health Canada), and for non-medical cannabis retailers, whether those businesses have at a minimum, an approval in principle from LCRB;
- the credit unions have adopted ongoing monitoring, enhanced due diligence, reporting, and independent assurance processes commensurate with the risk exposure to cannabis businesses;

Classification: **Protected A**

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- the transactional activity (types and amounts) of the cannabis business is consistent with what is expected from other retailers or similar types of businesses; and,
- the credit union's Senior Management and Board of Directors are providing appropriate oversight in respect to the above on an ongoing basis.

These expectations are consistent with those established in BCFSAs' Governance Guideline.

ADDITIONAL INFORMATION

If you have any questions or concerns about this Advisory, please contact your BCFSAs Relationship Manager or Chris Elgar at Chris.Elgar@bcfsa.ca. You can access this advisory on the BCFSAs website.