



UNIVERSITY OF  
TORONTO



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Islamic Studies

# HUMANITARIANISM & THE EXCLUSION OF MUSLIM CHARITIES FROM THE FINANCIAL SECTOR

THE UNINTENDED  
CONSEQUENCES OF  
CANADA'S ANTI-  
MONEY LAUNDERING,  
ANTI-TERRORIST  
FINANCING, AND  
SANCTIONS REGIME

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APRIL 30, 2026

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# ABBREVIATIONS

AML/ATF . . . . .	Anti-money laundering/anti-terror financing
BoC . . . . .	Bank of Canada
CBA . . . . .	Canadian Bankers Association
CRA . . . . .	Canada Revenue Agency, Ministry of National Revenue
FATF . . . . .	Financial Action Task Force
FCAC . . . . .	Financial Consumer Agency of Canada, Department of Finance
FINTRAC . . . . .	Financial Transactions and Reports Analysis Center of Canada, Department of Finance
GAC . . . . .	Global Affairs Canada
NGO . . . . .	Non-governmental organization
NPO . . . . .	Not-for-Profit Organization
NSIRA . . . . .	National Security Intelligence Review Agency, Public Safety
OBSI . . . . .	Ombudsman for Banking Services and Investments, Department of Finance
OFAC . . . . .	Office of Foreign Asset Control, United States Treasury
OSFI . . . . .	Office of the Superintendent of Financial Institutions
OSRI . . . . .	Office of the Special Representative on Islamophobia
OTO . . . . .	Office of the Taxpayers' Ombudsperson
PCMLTFA . . . . .	Proceeds of Crime (Money Laundering) and Terrorist Financing Act
RAD . . . . .	Review and Analysis Division, Canada Revenue Agency
UN . . . . .	United Nations



# EXECUTIVE SUMMARY

Canadian Muslim charities have consistently raised concerns about the discriminatory impact of Canada’s anti-money laundering/anti-terror financing and sanctions regimes (hereinafter AML/ATF+sanctions regime) on their activities. While there are good reasons to ensure charitable funds do not end up in the hands of terrorists, Canada recognized in 2025 that the threat of this happening is limited in Canada<sup>1</sup> Nonetheless, Canada enables a regulatory regime that charities complain poses unintended consequences that undermine their essential humanitarian work in regions that Canada deems high-risk for terrorist financing. These complaints extend to Not-for-Profit Organizations (NPOs) writ large—non-profits and registered charities—and implicate broader issues of financial access, consumer protection, and economic fairness at a time of rising costs, a weakening Canadian dollar, and global diversification beyond Canada’s traditional trading partners.

Canada’s more than 80,000 registered charities play an indispensable role in Canada and abroad. For many Muslims, charities also sustain faith traditions, transmit values across generations, and enable fulfilment of religious obligations such as zakat —supporting the poor and vulnerable both in Canada and abroad. Philanthropy is a cornerstone of Muslim life in Canada despite the ongoing challenges described in this paper.

The Financial Action Task Force (FATF), the global standard setting body for AML/ATF policies (of which Canada is a founding member), recognizes the significant role charities play in providing relief and support in moments of crisis and in regions of the world facing difficulties. In recent years, the FATF has recognized, based on considerable NPO intervention, that state implementation of its recommendations may lead to adverse “unintended consequences”<sup>2</sup> on the charitable sector, including but not limited to the over-securitization of charities by domestic charities regulators and financial derisking by private sector financial institutions.<sup>3</sup> Notably, European charities have successfully pressed the FATF to include mitigation of unintended consequences as a factor in its country evaluations.

The topic of unintended consequences and, more specifically, financial derisking of NPOs have not been significantly discussed in Canadian public policy debates. This report fills this gap by offering recommendations on how Canada, in compliance with FATF recommendations, can mitigate against the unintended consequences that Canadian NPOs, including registered charities, now experience. The proposed recommendations fulfill the mandates of the Canadian government given its international humanitarian commitments, and its promise to grow and diversify Canada’s economy. For instance, when Global Affairs Canada (GAC) allocates funding to its Canadian Humanitarian Assistance Fund (CHAF), it does so knowing that the charitable sector—working through the coordinating body Humanitarian Coalition—will combine these tax dollars with private donations to support relief efforts around the world.<sup>4</sup> Likewise, recently the Secretary of State (International Development) has committed to leverage Canada’s development assistant programs with the expansion of trade partners and the creation of efficient supply chains. Canada’s NPOs will inevitably play a front-line role in executing development programs via Canadian funding programs.<sup>5</sup>

Canadian government hearings and independent research have shown that Muslim-led charities are disproportionately subjected to onerous audits by the Canada Revenue Agency (CRA),<sup>6</sup> often extending beyond standard compliance with the Income Tax Act. A review by the Office of the Taxpayers' Ombudsperson (OTO)<sup>7</sup> concluded that it could not fully assess the issue due to lack of access to data for privacy and national security reasons. The National Security Intelligence Review Agency's (NSIRA) review of the CRA and its audits under the AML/ATF+sanctions regime found serious deficiencies in the risk methodologies used to review and audit NPOs, specifically regulated charities, under the rubric of national security.<sup>8</sup> Consultations with various stakeholders, including Muslim charitable organizations and subject-matter experts highlighted persistent challenges that go beyond individual cases. It is, therefore, urgent to understand and address how Canada's AML/ATF+sanctions regime undermines the ability of NPOs to deliver on their beneficial charitable purposes.

Based on a review of literature and evidence, and consultations with stakeholders, there are three primary unintended consequences of Canada's AML/ATF+sanctions regime on the NPO sector. First, among the unintended consequences that have already been addressed (e.g., CRA and RAD audits), the regime incentivizes private sector risk assessment practices that create the conditions for bias and privacy violation. Second, the regime leads to undesirable financial derisking, leaving NPOs, including registered charities, without access to important banking services and, in practice, unable to operate. Finally, the regime has led to "humanitarian derisking" as NPOs prioritize AML/ATF+sanctions risk assessments over principled humanitarian action.

Each one of these consequences is significant in its own right and the interplay of the three has led to particularly serious consequences. For example, due to financial derisking, NPOs and registered charities providing life-saving humanitarian relief are losing access to payment systems essential for transferring funds to crisis-affected regions. In order to preserve that access, Muslim charities in Canada are increasingly forced to conduct "humanitarian derisking," weighing their ability to maintain financial services against their charitable mandate to respond to humanitarian disasters. In some cases, this has forced organizations to withdraw entirely from high-need regions.

American and European NPO advocates have successfully pressed the FATF to recognize unintended consequences (and their mitigation) as a factor in its country evaluations. While Canadian charities have contributed to these global discussions, they have not played a leadership role. Nor has it been robustly examined in national policy debates. This paper seeks to fill that gap. Section I provides a background to the work done to date on the issue of NPOs, with an emphasis on registered charities, and their regulation under Canada's AML/ATF regime. That first generation of research (Charities 1.0) informed two federal reviews that focused on the Canada Revenue Agency (CRA) and its AML/ATF unit the Review and Analysis Division (RAD). Leveraging the learnings from that research and federal reviews, this report adopts a whole-of-government approach to inaugurate a new generation of research (Charities 2.0) to examine how NPOs and regulated charities are subject to a complex public-private partnership involving (a) numerous siloed federal agencies enforcing Canada's AML/ATF, UN sanctions, and autonomous sanctions regimes, and (b) private sector institutions whose compliance practices lead to adverse unintended consequences with few mitigation measures in place. Section II introduces the relevant public-private partners

and Section III explains the unintended consequences NPOs encounter when caught in their web of regulation and compliance. Section III concludes with a series of new recommendations designed to mitigate those consequences, also listed below. The FATF's evaluation team visited Ottawa in November 2025 and upon further research and consultations will produce its Mutual Evaluation report on Canada's compliance regime in 2026. This report underscores the urgency of addressing how Canada's AML/ATF+sanctions regime—while advancing security goals—has undermined the ability of NPOs and Canada's vibrant charitable sector to deliver on their public benefit purposes.

It is possible to mitigate these unintended consequences while continuing to effectively guard against money laundering and terrorist financing and to respect sanctions regimes. But a coordinated government response is required. The following recommendations identify actionable steps that can be taken by implicated federal departments and agencies to meaningfully address the problems.<sup>9</sup>

## RECOMMENDATIONS

1. **CRA:** Require the CRA to disclose legal and regulatory grounds for an audit to the charity under audit, including any grounds related to AML/ATF+sanctions.
2. **Department of Finance, OSFI, BoC:** The Office of the Superintendent of Financial Institutions (OSFI), the Bank of Canada (BoC) and any other federal regulators of financial institutions and payment services should adopt financial inclusion as a prudential principle of financial regulation.
3. **Department of Finance, FINTRAC:** The Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA) should be amended to require all reporting entities under s. 5 to provide annual reports to Financial Transactions and Reports Analysis Center of Canada (FINTRAC) on the number of terminated accounts and accompanying rationale for derisking.
4. **Department of Finance, FINTRAC:** Subject to Recommendation 3, FINTRAC should include an assessment of the state of derisking in Canada's financial institutions in its legislatively mandated annual report under PCMLTFA, s. 71(1).
5. **Department of Finance, FINTRAC:** Subject to Recommendation 3, FINTRAC should provide a standardized reporting template for reporting entities to ensure consistency and alignment with FATF concerns on unintended consequences and the prudential principle of financial inclusion.
6. **Department of Finance, FCAC:** Financial Consumer Agency of Canada (FCAC) should develop a strategy to support financial inclusion, and periodic assessments (every five years) on the state of financial exclusion in Canada's financial services industry, including progress toward fulfilling its strategies to redress financial exclusion of Canada's financial consumers.
7. **Department of Finance, OBSI:** Ombudsperson for Banking Services and Investments (OBSI) should develop a redress mechanism within its existing consumer complaints process that examines derisking as a potential instance of bias in the application of risk analysis.
8. **Department of Finance:** Representatives of the NPO sector should be included on the Advisory Committee on AML/ATF.

9. **CRA:** The Charities Directorate, with consultation from Public Safety, should issue guidance to help charities understand the scope and limits of the new humanitarian exception and authorization regime in the Criminal Code.
10. **CRA and Public Safety:** CRA and Public Safety should jointly organize semi-annual sessions to address the NPO sector at large, and the humanitarian/development sector in particular, on compliance with the humanitarian exception and to advise on best practices when applying to the authorization regime under the Criminal Code s. 83.032.
11. **CRA and GAC:** CRA and GAC should jointly organize for the NPO sector, in particular the humanitarian and development sector, semi-annual sessions to support NPOs comply with Canada’s UN and autonomous sanctions regime.
12. **Public Safety:** Public Safety should conduct a periodic review of its authorization regime in coordination with representatives from the CRA’s Charity’s Directorate and Canada’s NPO sector, specifically leading humanitarian and development agencies, to assess the efficacy and any unintended consequences of the new authorization regime, including but not limited to whether and to what extent the authorization regime contributes to Canadian charities derisking their humanitarian and development programs due to AML/ATF+sanctions mission creep. This periodic review should be included as part of Public Safety’s annual reporting requirements under Criminal Code s. 83.0392 (1).

1. See, for instance, Department of Finance, *2025 Assessment of Money Laundering and Terrorist Financing Risks in Canada* (Ottawa: Government of Canada, 2025), 55, where Finance Canada explains: “The terrorist financing threat assessment indicates that Canada’s terrorist financing landscape is largely low volume, characterized by low value transactions and limited financial flows.”
2. The Financial Action Task Force uses the language “unintended consequences” to address the downstream adverse consequences stemming from state compliance with its recommendations. For an example of FATF usage, see [here](#). For the FATF, the fact that these unintended consequences are adverse is presumed and implicit. Throughout this paper, the phrase “unintended consequences” follows FATF usage, including the implication that all such consequences under review are adverse to the parties identified.
3. For an example of the FATF’s approach, see here: <https://www.fatf-gafi.org/en/publications/Financialinclusionandnpoissues/Unintended-consequences-project.html>.
4. On the CHAF, see [https://www.international.gc.ca/world-monde/issues\\_development-enjeux\\_developpement/response\\_conflict-reponse\\_conflits/canadian\\_humanitarian-canadien\\_humanitaire.aspx?lang=eng](https://www.international.gc.ca/world-monde/issues_development-enjeux_developpement/response_conflict-reponse_conflits/canadian_humanitarian-canadien_humanitaire.aspx?lang=eng). Humanitarian Coalition is an umbrella organization consisting of Canada’s twelve largest humanitarian aid and relief charities. For more on Humanitarian Coalition, its membership, and its coordinating function, visit its website here: <https://www.humanitariancoalition.ca>.
5. Riddhi Kachhela, “International development strategy now linked to economic agenda says Sec State Sarai,” *The Hill Times*, 22 December 2025, <https://www.hilltimes.com/story/2025/10/29/international-development-strategy-linked-to-economic-agenda-says-secstate-sarai/480149/>. For examples of Canadian funding programs for development assistance, see Global Affairs Canada’s funding opportunities for international assistance, online: [https://www.international.gc.ca/world-monde/funding-financement/open\\_calls-appels\\_ouverts.aspx?lang=eng](https://www.international.gc.ca/world-monde/funding-financement/open_calls-appels_ouverts.aspx?lang=eng).
6. Canada, Parliament Senate Standing Committee on Human Rights, *Combatting Hate: Islamophobia and its Impact on Muslims in Canada*, 44<sup>TH</sup> Parl, Sess 1 (November 2, 2023), 50-54; Anver M. Emon and Nadia Z. Hasan, *Under Layered Suspicion: A Review of CRA audits of Muslim charities* (Toronto: University of Toronto Institute of Islamic Studies, 2021), [www.layeredsuspicion.ca](http://www.layeredsuspicion.ca); Tim McSorely, *The CRA’s Prejudiced Audits* (Ottawa: International Civil Liberties Monitoring Group, 2021), <https://iclmg.ca/confronting-the-cras-prejudiced-audits/>.
7. For the OTO report, see Office of the Taxpayers’ Ombudsperson, *Charity Begins with Fairness: More to Explore* (Ottawa: Government of Canada, 2023), online: <https://www.canada.ca/en/taxpayers-ombudsperson/programs/reports-publications/special-reports/charity-begins-with-fairness.html>.
8. National Security Intelligence Review Agency, *Review of the Canada Revenue Agency’s Review and Analysis Division*, Review 23-08 (Ottawa: Government of Canada, 2025).
9. Many of the agencies highlighted in this discussion paper, including those referenced further in the recommendations, were consulted in a preliminary capacity to inform the development of the proposed recommendations. The author extends his gratitude and appreciation to all stakeholders who contributed their expertise, insights and support throughout the research process and in developing this paper.





# ACKNOWLEDGEMENTS

Numerous stakeholders across Government and the NPO sector were consulted for this research. I wish to express my deep and sincere gratitude for their time and commitment to reflect with me on how to support Canada's NPO sector under conditions of national security. Since 2023, national discussion on the issues identified herein were led by Canada's Office of the Special Representative to Combat Islamophobia, led by Ms. Amira Elghawaby. I was privileged to serve as a special advisor to that Office. The research for this report, while always independent, was conducted under the auspices of that Office, the tireless leadership of Ms. Elghawaby, and the support of her dedicated colleagues in the public civil service. In February 2026, the Government of Canada dissolved that office. This report remains an academic product produced under conditions of academic freedom. It does not reflect the views of the Government of Canada. Nonetheless I express my deep gratitude to Ms. Elghawaby and her former colleagues at the Office of the Special Representative on Combatting Islamophobia at the Department of Canadian Heritage for their collegiality, friendship, and leadership.

