

## **Overview Report: Cash Payments for Building Supplies**

### **A. BACKGROUND**

1. This overview report considers whether the purchase of building supplies may be an avenue for those looking to launder proceeds of crime. It is well documented across academic literature and media reporting on money laundering that building construction and renovation can be used to launder the proceeds of crime. One aspect of this form of money laundering that has been identified is the purchase of building supplies. Reports that reference the use of cash payments for building supplies as a mechanism for laundering money are attached as Appendix A.

### **B. REGULATORY COVERAGE**

2. There are several actors in the real estate industry that are required under the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (PCMLTFA) to report suspicious transactions to the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC). These ‘reporting entities’ include real estate developers, real estate brokers, and real estate sales representatives. Reporting entities in the real estate industry are expected to assess all clients for suspicious activity that may indicate money laundering, including a long list of indicators outlined in guidance published by FINTRAC, in accordance with the PCMLTFA and its associated Regulations.<sup>1</sup> Certain client activity automatically triggers a reporting entity’s requirement to file a report with FINTRAC. One such activity is where a reporting entity receives a cash transaction of \$10,000 or more, or multiple cash transactions in a 24-hour period that total \$10,000 or more. In such circumstances, the reporting entity must file a Large Cash Transaction Report within 15 calendar days.

3. Builders and building supply companies are not reporting entities under the PCMLTFA. They are therefore not obligated to report large cash transactions or conduct know-your-customer (KYC) due diligence, including enquiring about their customers’ sources of funds.

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<sup>1</sup> “Real estate developers, brokers and sales representatives,” Financial Transactions and Reports Analysis Centre of Canada, <https://www.fintrac-canafe.gc.ca/re-ed/real-eng>

## C. METHODOLOGY

4. In order to gain a better understanding of the prevalence of large cash transactions in the building supply industry, the Commission of Inquiry into Money Laundering in British Columbia issued summonses to eight randomly selected building supply companies in the Lower Mainland. The summonses asked recipients to produce the following information and records in their possession related to cash transactions:

- a. Records of cash transactions with a value of \$10,000 or greater related to the purchase of building supplies from the recipient;
- b. records related to the return and refund of the purchase price of any building supplies purchased in cash from the recipient; and
- c. records related to the policies and practices of the recipient with respect to the acceptance of cash as a means of payment for the purchase of building supplies.

It was subsequently clarified by the Commission that only records of cash refunds over \$10,000 were required. An example of the summons that was sent is found in Appendix B.

## D. RESEARCH FINDINGS

5. Of the eight companies that received summonses, five have provided records to the Commission. Commission counsel has also conducted interviews with two companies.

6. The five companies that have responded to the summons to date are: Crown Building Supplies, Ham Building Supplies, Richmond Building Supplies, Southridge Building Supplies and Standard Building Supplies.

### Cash Transactions

7. The five responding companies provided records of all cash transactions over \$10,000 from 2015 to 2020. In total, there were 77 cash transactions reported to the Commission from 55 individual buyers. The table below provides details on the transactions from each responding company:

Supplier	Number of cash	Number of individual buyers	Total of all transactions
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	<b>transactions over \$10,000</b>		
Building Supply Company A	4	4	\$67,200.00
Building Supply Company B	40	26	\$487,927.22
Building Supply Company C	4	3	\$82,837.30
Building Supply Company D	16	15	\$275,832.40
Building Supply Company E	13	7	\$217,753.29
<b>Total</b>	<b>77</b>	<b>55</b>	<b>\$1,131,550.21</b>

8. A detailed breakdown of the records year-to-year is provided below:

<b>Year</b>	<b>Supplier</b>	<b>Number of cash transactions over \$10,000</b>	<b>Number of Individual buyers</b>	<b>Total of all Transactions</b>
<b>2015</b>	Company A	0	0	\$0.00
	Company B	16	7*	\$183,966.85
	Company C	0	0	\$0.00
	Company D	0	0	\$0.00
	Standard	0	0	\$0.00
	<b>2015 Total</b>	<b>16</b>	<b>7</b>	<b>\$183,966.85</b>
<b>2016</b>	Company A	0	0	\$0.00
	Company B	3	1	\$34,500.00
	Company C	0	0	\$0.00
	Company D	5	5	\$86,252.60
	Company E	5	3	\$63,806.01
	<b>2016 Total</b>	<b>13</b>	<b>9</b>	<b>\$184,558.61</b>
<b>2017</b>	Company A	0	0	\$0.00
	Company B	9	6*	\$110,206.08
	Company C	2	1	\$21,381.34
	Company D	4	4	\$70,034.25
	Company E	6	2	\$133,947.28
	<b>2017 Total</b>	<b>21</b>	<b>13</b>	<b>\$335,568.95</b>
<b>2018</b>	Company A	1	1	\$11,200.00
	Company B	5	5*	\$60,202.04
	Company C	0	0	\$0.00
	Company D	1	1	\$55,872.30
	Company E	3	3	\$10,000.00
	<b>2018 Total</b>	<b>10</b>	<b>10</b>	<b>\$137,274.34</b>
<b>2019</b>	Company A	3	3	\$56,000.00
	Company B	7	7*	\$99,052.25
	Company C	2	2	\$61,455.96
	Company D	2	1	\$30,200.00
	Company E	1	1	\$10,000.00
	<b>2019 Total</b>	<b>15</b>	<b>14</b>	<b>\$256,708.21</b>

<b>2020</b>	Company A	0	0	\$0.00
	Company B	0	0	\$0.00
	Company C	0	0	\$0.00
	Company D	2	2	\$33,473.25
	Company E	0	0	\$0.00
	<b>2020 Total</b>	<b>2</b>	<b>2</b>	<b>\$33,473.25</b>
<b>Total</b>	<b>77</b>	<b>55</b>	<b>\$1,131,550.21</b>	

*\*There were 9 individual transactions provided without a buyer and only listed as "Cash". Each of these transactions were counted as a unique buyer.*

9. One point of note from analyzing the provided records was that most cash transactions were conducted by unique buyers, with only one or two repeat customers per company. However, one company did have a single buyer who used cash for 17 different transactions between 2015 and 2018, amounting to \$184,500.

10. Of all the cash transactions recorded, almost a third of transactions (24 of 77) were for exactly \$10,000. Only 7 of the 77 transactions were for more than \$25,000, and of those, only 1 transaction was for more than \$50,000. A summary of the transactions is provided below:

<b>Transaction range</b>	<b>Number of Transactions</b>
\$10,000	24
\$10,001 - \$15,000	29
\$15,001 - \$20,000	15
\$20,001 - \$25,000	2
\$25,001 - \$30,000	4
\$30,001 - \$35,000	1
\$35,001 - \$40,000	1
\$40,001 - \$45,000	0
\$45,001 - \$50,000	0
\$50,000 and above	1

11. It is worth noting that of the 77 transactions recorded, 34 were an even number of exactly \$10,000 (24), \$15,000 (4), or \$20,000 (6). No information was provided about the denomination of the cash used by purchasers.

12. From the review of the records provided, many of the cash transactions occurred when contractors would charge orders to their account with the building supply company, and then use cash to pay off some or all of their account.

*Sale and Delivery Addresses*

13. More than two thirds of customers making large cash purchases did not provide an address (or did not have their address recorded by the vendor). Of the 77 cash purchases that the Commission was provided records for, only 25 individual buyers across 34 cash transactions provided a purchasing address, or “sold to address” as many records referred to it. The geographical location of the sold to addresses were as follows:

<b>Municipality</b>	<b>Number of purchasing addresses</b>
Burnaby	3
Gibsons	1
Langley	1
North Vancouver	1
Richmond	5
Surrey	8
Vancouver	6

14. 27 of the records provided to the Commission also listed a delivery address for the order that was being paid for in cash. The geographical breakdown of the delivery addresses follows, with a total of 22 unique delivery addresses:

<b>Municipality</b>	<b>Number of delivery addresses</b>
Abbotsford	2
Aldergrove	1
Anmore	1
Burnaby	3
Gibsons	2
Ladner	1
Langley	1
North Vancouver	1
Richmond	2
Surrey	3
Tsawwassen	1
Vancouver	4

*Cash Refunds*

15. No records for cash refunds over \$10,000 were provided. One company informed the Commission that orders in excess of \$1,000 would be deemed ‘custom ordered’ and therefore would generally not be eligible for a refund. A second company was noted to have a policy of not allowing returns of special orders, as cited on the invoices the company provided to the Commission.

Cash Policies

16. No records responsive to the request for records related to the policies and practices of the recipient with respect to the acceptance of cash as a means of payment for the purchase of building supplies were provided. In conversation with building supply companies, Commission counsel were advised that such written policies did not exist.

**E. CONCLUSIONS**

17. The lack of regulatory coverage and internal company policies regarding the acceptance of unsourced cash as payment for building supplies may make the industry vulnerable to money laundering. However, the small sample of companies which provided information to the Commission does not indicate a substantial amount of cash transactions at these businesses.

18. All transactions reported over the \$10,00 threshold were in the low tens of thousands of dollars, with the large majority of transactions being \$20,000 or less. Across the five building supply companies that supplied records to the Commission, a total of \$1,131,550 was paid for in cash between 2015 and 2020.

19. The Commission did not receive information on source of funds and did not investigate those making the payments, so no determination has been made on whether any of these cash payments were used to launder money.

## APPENDIX A

### References to Money Laundering through Real Estate Construction

European Parliament Research Service, (February 2019) "Understanding money laundering through real estate transactions," accessed February 4, 2021: [https://www.europarl.europa.eu/cmsdata/161094/7%20-%2001%20EPRS\\_Understanding%20money%20laundering%20through%20real%20estate%20transactions.pdf](https://www.europarl.europa.eu/cmsdata/161094/7%20-%2001%20EPRS_Understanding%20money%20laundering%20through%20real%20estate%20transactions.pdf)

Financial Action Task Force, (June 29, 2008) *Money Laundering & Terrorist Financing Through the Real Estate Sector*, accessed February 4, 2021: <https://www.fatf-gafi.org/media/fatf/documents/reports/ML%20and%20TF%20through%20the%20Real%20Estate%20Sector.pdf>

Financial Crimes Enforcement Network, (December 2006) "Money Laundering in the Commercial Real Estate Industry," accessed February 4, 2021: <https://www.fincen.gov/money-laundering-commercial-real-estate-industry>

German, Peter, (March 31, 2019) *Dirty Money Part 2: Turning the Tide*, accessed February 4, 2021: [https://cullencommission.ca/files/Dirty\\_Money\\_Report\\_Part\\_2.pdf](https://cullencommission.ca/files/Dirty_Money_Report_Part_2.pdf)

Schneider, Stephen, (2004) *Money laundering in Canada: An analysis of RCMP cases*. Toronto: Nathanson Centre for the Study of Organized Crime and Corruption.

### Specific Examples of Money Laundering Using Cash Payments for Building Supplies

Cape Cod Times (December 20, 2019) "Man allegedly used stolen money to build Dennis house," <https://www.capecodtimes.com/news/20191220/man-allegedly-used-stolen-money-to-build-dennis-house>

Daily Times, (August 20, 2019) "Shop assistant spared prison despite splashing out £100,000 from her family-run cocaine racket," <https://dailytimes.com.pk/450720/shop-assistant-spared-prison-despite-splashing-out-100000-her-family-run-cocaine-racket/>

KY3 News (October 23, 2018) "Owner of Springfield nightclub charged with federal drug trafficking," <https://www.ky3.com/content/news/Owner-of-Springfield-night-club-charged-with-federal-drug-trafficking-498357471.html#:~:text=An%20owner%20of%20a%20Springfield,drug%20trafficking%20C%20among%20other%20charges.&text=Charged%20in%20the%20indictment%20are,George%2C%20Utah>

United States Federal Bureau of Investigation, (January 30, 2009) "Reids Sentenced for Money Laundering Conspiracy and Harboring a Fugitive," <https://archives.fbi.gov/archives/louisville/press-releases/2009/harboringfugitive013009.htm>

*United States of America v 1948 South Martin Luther King Drive, Springfield, Illinois, et al.* 270 F.3d 1102 (7<sup>th</sup> Cir. 2001), <https://law.justia.com/cases/federal/appellate-courts/F3/270/1102/545451/>

## APPENDIX B

**COMMISSION OF INQUIRY INTO MONEY LAUNDERING IN BRITISH COLUMBIA**  
**SUMMONS TO ATTEND AND PRODUCE**  
**(ss. 22(1)(a) and (b) of the *Public Inquiry Act*)**

To: [REDACTED]  
[REDACTED]

TAKE NOTICE that the Commission of Inquiry into Money Laundering in British Columbia summons you to produce to commission counsel the following relevant information and records in your possession or control, for the period 2015-2019, except where such information or records is protected by privilege:

- a. Records of cash transactions with a value of \$10,000 or greater related to the purchase of building supplies from [REDACTED];
- b. Records related to the return and refund of the purchase price of any building supplies purchased in cash from [REDACTED] and [REDACTED];
- c. Records related to the policies and practices of [REDACTED] with respect to the acceptance of cash as a means of payment for the purchase of building supplies;

AND TAKE NOTICE that the deadline for producing this material to the Commission is December 15, 2020 unless otherwise agreed by commission counsel.

AND TAKE NOTICE that the Commission summons the directors of [REDACTED] to meet with Commission counsel, by videoconference, at a date and time to be communicated by Commission counsel.

All information that you are required to produce may be emailed to [Eileen.patel@cullencommission.ca](mailto:Eileen.patel@cullencommission.ca), or sent by courier or delivered in person to the following address between the hours of 9 am and 5 pm, Monday to Friday:

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Suite 601 – 700 West Georgia Street  
Vancouver, BC V7Y 1B6  
Attn: Eileen Patel