



B. MONEY LAUNDERING

STRATEGIC CONSIDERATIONS

- Law enforcement is not the primary point of contact for data and information pertaining to money laundering. Law enforcement now relies more on partner agencies that submit, receive and analyse financial transactions to identify money laundering and its indicators
- The infiltration or corruption of professional service providers (e.g. lawyers, real estate agents, professional accountants) are necessary for organized crime (OC) and/or professional money launderers to facilitate significant volumes of money laundering
- In 2015, money laundering (specifically trade-based money laundering) was noted to pose a key challenge for intelligence and enforcement agencies within the global public safety industry. This is consistent within BC, where indicators of trade-based money laundering are present
- The investigative and intelligence strategy of "follow the money" is associated with weaknesses and risks, which include:
 - availability and complexity of the data and information
 - dependence on partner agencies for gap identification aimed at overall prioritization
- Gaps related to money laundering include:
 - the identification of facilitators for bulk cash movements
 - the channels used to move cash (or materials of value such as precious metals and gemstones) across borders
 - the spectrum of money laundering strategies being employed
 - evidence of corruption that facilitates money laundering



OVERVIEW

Money laundering supports and is required by criminality. The service of organized money laundering is profitable and has perceived lessened risk for detection, enforcement and disruption. Organized crime groups (OCGs) build capacity and/or contacts in money laundering and can be involved in one, or all aspects of legitimizing funds and moving money. Money laundering swiftly moves from a provincial and territorial arena to a national or transnational context given the globalization of criminality and of formal and informal financial systems. This threat assessment is intended to identify and highlight the risks associated to money laundering in BC and the Yukon for 2015 and beyond, and includes the identification of intelligence gaps.

MONEY LAUNDERING – THREAT

What are the implications for BC and YT?

- Money laundering is a key component of OC that cannot be removed from the criminal supply chain, and it will continue to contribute to significant social and economic costs associated to OC
- The proceeds of illicit drug trafficking and financial crime undertaken by OC continue to drive money laundering activity
- The use of professional services is a key money laundering threat

Money laundering is the process used to disguise the source of money, or assets, derived from criminal activity. In addition to legitimizing criminal proceeds for future criminal use, money laundering poses a significant risk to the integrity of legitimate financial systems and institutions. The worldwide estimate, based on data from 2009, has been noted as being between USD\$1.5 trillion and USD\$2.1 trillion annually. As a support function, money laundering reinforces OC. The United Kingdom (UK) 2015 National Risk Assessment of Money Laundering and Terrorist Financing report stated that in the UK the social and economic costs of serious and organized crime are estimated to be USD\$34 billion. While no figures are available for BC or the Yukon, it is safe to assess that OC activity in BC and the Yukon results in significant economic and social costs.

In March 2015 and 2016, the US Department of State categorized Canada as a “jurisdiction of primary concern” related to money laundering. Canada measured well in a number of assessed areas, yet was assigned the highest rating as a jurisdiction of primary concern.



The US Department of State report included an analysis of:

- the size of financial transactions involving proceeds of crime
- the steps taken to address money laundering
- the state's vulnerability to money laundering
- related laws and policies
- the effectiveness of government actions
- the government's political will to take required actions

Illicit drug trafficking and financial crime profits are the primary drivers of money laundering activities in Canada. According to the US Department of State, criminal proceeds laundered in Canada are derived from domestic activity controlled by drug trafficking organizations and OC. Methods associated to money laundering in Canada are stable and include a number of tactics noted in BC-based investigations and intelligence probes. These include:

- money service businesses (MSBs) and currency exchanges
- casinos
- wire transfers
- use of professional services

The use of professional services, such as lawyers and accountants, has been identified as a key money laundering threat by the US Department of State and by the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), Canada's financial intelligence unit. In 2015, the UK National Risk Assessment of Money Laundering and Terrorist Financing report noted that individuals working in the regulated sector may unwittingly facilitate money laundering, through negligence or non-compliance. This is also assessed as taking place in BC and the Yukon. The US Department of State report noted that trade-based money laundering indicators are present in Canada. The assessment cannot be broken down for BC and the Yukon; however, BC is consistent with the environment required to support trade-based money laundering. It has ports, a large volume of international trade, resources and goods exports, available professional services, and a stable, accessible financial system.



MONEY LAUNDERING ASSOCIATED WITH PRECIOUS METALS

What are the implications for BC and YT?

- Gold and other precious metals provide a strong opportunity for money laundering activity or diversification – they have a global market, rely upon cash, are associated to lower risk for returns, and carry a degree of anonymity
- The exchange of precious metals can be completed without a paper trail between parties, limiting the ability of intelligence and law enforcement agencies to investigate

The Financial Action Task Force (FATF) wrote a Money Laundering report in 2015 that assessed the money laundering and terrorist financing risks and vulnerabilities associated with gold. The report was a joint effort with the Asia / Pacific Group (APG), and was undertaken to assess money laundering activity being displaced as a result of a hardening in the financial sector and cash markets. This assessment is particularly relevant to BC and the Yukon from a strategic perspective as recent investigational and regulatory efforts are perceived to have applied pressure to the formal financial sector. In addition, BC and the Yukon are part of the Asia-Pacific region.

Gold is a universally accepted global currency with a stable demand due to its intrinsic value, associated religious, social, and cultural factors, and the ease with which it can be exchanged. The gold market is global and while it is covered under the FATF standards (recommendation 23), its regulation is complex.

Why is gold of interest to OC? Gold is a bearer instrument and provides a degree on anonymity. While simple, small money laundering operations involving gold are highly feasible – such as “cash for gold” operations – slightly more complex operations are associated with little additional risk. The purchase, movement and trade in gold can quickly and easily occur between multiple countries, allowing for significant criminal proceeds to be inserted, layered and extracted over a short time period. Paying tax can be avoided and gold can be sold quickly at a profit. The FATF provided a case study that highlighted a five day turnaround of drug trafficking profits being returned to OC as laundered funds. The money laundering strategy was so efficient that the party providing the service waived all fees – OC laundered criminal proceeds at no cost.



Additionally, gold and precious metals are easy to smuggle and trade, and typically provide a stable return with little inherent risk in the short-term. From the perspective of trade-based money laundering, the physical commodity may never have to move from one location to another if the intent is to only support the movement of large amounts of money. Given the high value of gold, it can be used on an invoice as the justification for transferring significant sums of money between companies and across borders.

In July 2015, the Department of Finance, Government of Canada, (DOF) provided an assessment that dealers in precious metals and stones (DPMS) are considered to be rated at the high vulnerability (the second highest rating) within the economic and financial sector. The vulnerability rating was made as a result of large transactions, large volumes, cash transactions, high degree of anonymity, and high commodity value. DOF also noted DPMS as a highly accessible sector. This is consistent with information noted in the FATF assessment report, which highlighted a number of indicators pertaining to various roles within precious metals and money laundering. It is assessed that these indicators should be reviewed and applied by operational intelligence in law enforcement in order to define intelligence requirements and provide enforcement and disruption opportunities.

Additional strategic analysis and assessment is required in the area of precious metals and stones, given the relevance of the natural resource industry in northern BC and the Yukon. The FATF has published a relevant assessment on this subject; however, it is believed that a significant amount of environmental scanning and research is required before any assessments can be made for BC and the Yukon.



DOF – ASSESSMENT OF INHERENT RISKS OF MONEY LAUNDERING

What are the implications for BC and YT?

- Transnational OC and professional money launderers are assessed to be the key actors associated to the highest rating for threat, relative to money laundering and the negative economic and social cost
- The criminal activity associated to the highest threat level (money laundering) included illicit drug trafficking, third-party money laundering, fraud, and corruption and bribery
- The products and services associated to the most severe economic and financial sector vulnerabilities are readily available to individuals in BC and the Yukon, either independently or through related professional services
- Professional services have a presence in at least three of the five sectors identified as being the highest risk, further supporting the assessment that the infiltration and/or corruption of professional services are a key threat factor in money laundering

As stated in the July 2015 DOF report on the assessment of inherent risks of money laundering and terrorist financing:

“Money laundering and terrorist financing compromise the integrity of the financial system and are a threat to global safety and security. Money laundering is the process used by criminals to conceal or disguise the origin of criminal proceeds to make them appear as if they originated from legitimate sources. Money laundering frequently benefits the most successful and profitable domestic and international criminals and OC groups.”

The DOF assessment was comprehensive and included information and intelligence through December 31, 2014. Established within the assessment was the threat level for criminal activity, vulnerabilities for economic sectors and financial products, and inherent money laundering risks. DOF assessed that “transnational organized crime (TNOG) groups and professional money launderers are the key threat actors” and that “many of these threats are similar to those faced by several other developed and developing countries”.



The criminal activities deemed to be most relevant to OC in BC and the Yukon are:

- illicit drug trafficking
- third-party money laundering
- fraud (mass marketing fraud, capital market fraud, mortgage fraud, commercial fraud)
- corruption and bribery

The most significant money laundering vulnerabilities associated to the economic and financial sector are:

- domestic banks
- for-profit private corporations
- money service businesses (MSBs) – small independent MSBs, national full-service MSBs
- express trusts

Some of these vulnerabilities are commonly associated to money laundering activity and some have surfaced in recent investigations and intelligence probes; others, such as for-profit private industry, are noted as key components of money laundering strategies – not concretely known but suspected to exist given current indicators.

As DOF noted (and which is consistent with the environment for BC and the Yukon), many of the sectors and products are openly accessible to individuals in Canada and internationally. Furthermore, this availability can be facilitated through the use of professional services, either unwittingly through negligence or non-compliance, or with criminal intent. It is important to note that professional services was assessed as a key threat area for Canada, and coupled with readily available economic and financial sector vulnerabilities, pose a significant risk in BC and the Yukon.

Additionally, the openly available products and services within the economic and financial sector are “associated with a high volume, velocity and frequency of transactions”. This provides an opportunity for those with criminal intent. When coupled with strategies that induce complexity for increased anonymity and leverage jurisdictions with limited anti-money laundering regulations, the magnitude of the vulnerability grows.

The final component of the DOF assessment included the layering of threats and vulnerabilities for the identification of risk. This represented the threat actors (e.g. TNOC) engaged in money laundering of criminal proceeds generated from key types of criminality. The list below includes DOF’s highest money laundering risks that are relevant to BC and the



Yukon. The DOF assessment noted that TNOC and OC were the most significant threat actors.

The highest degree of risk for money laundering:

- deposit-taking financial institutions – domestic banks, foreign bank subsidiaries
- money service businesses (MSBs) – national full-service MSBs, small independent MSBs, smaller retail MSBs, internet-based MSBs
- casinos
- non-financial businesses and professions – legal professionals, real estate agents and developers, DPMS
- corporations and trusts – for-profit corporations, express trusts

Again, the potential for the involvement of professional services is evident in three of the five risk types identified above.

The DOF report also highlighted a significant number of indicators which pertain to varied money laundering threat tactics. These indicators should be reviewed and applied by operational intelligence in law enforcement in order to define intelligence requirements and provide enforcement and disruption opportunities.

COMBATTING MONEY LAUNDERING – DATA AND PARTNERSHIPS

What are the implications for BC and YT?

- The detection and identification of money laundering associated to OC will continue to be heavily reliant on receiving data and information from the private sector
- The creation of a money laundering think-tank in BC, involving expertise from the private sector, intelligence and law enforcement agencies would serve to better inform the detection and prioritization of OC involved in money laundering activity

From the perspective of data and information, Canada (including BC and Yukon) exists in an environment similar to that in the UK. Simply stated, the private sector takes in and maintains a significant portion of the data and information related to the detection and disruption of money laundering. Consistent with the UK report findings and the UK Joint Money Laundering Intelligence Taskforce (JMLIT) pilot project established in 2015, BC and the Yukon would benefit from increased collaboration and information-sharing between the financial sector and intelligence and law enforcement agencies. FINTRAC is engaged with numerous law enforcement agencies in BC for the purpose of information and intelligence sharing, and money



laundering detection. However, FINTRAC cannot solely bear the responsibility of managing intake, analysis and assessment, as well as providing direct support to law enforcement investigations. This is congruent with challenges in the financial crime criminal market, whereby there is a significant volume of data and information held in the private sector. Access to subject matter experts, techniques, and collaboration between the private sector, intelligence, and law enforcement offers a potential solution towards the reduction of OC in the areas of money laundering and financial crime.

Further supporting the need for private sector collaboration is the opposition of business regulation and healthy, profitable businesses in the financial sector. For example, in August 2015, the UK government announced that money laundering controls would be relaxed in order to save British companies approximately CAD\$15 billion per year. The intent is to increase efficiency without any sacrifice to public safety and security. This will innately require input from all impacted parties noted above, including government. It is initiatives such as this that can be delivered quickly and effectively should a collaborative environment flourish.