

**Professional Money
Launderers Who
Own/Control Money
Service Businesses**

PROTECTED “B”



CRIMINAL INTELLIGENCE
SERVICE
BRITISH COLUMBIA &
YUKON TERRITORY

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EXECUTIVE SUMMARY

Professional money launderers (those who are paid to launder money for others) who also own or control money service businesses (MSBs) pose a high threat because they have the expertise and ability to manipulate banking and money transfer systems to support complex, transnational money laundering (ML) operations, and they specialize in laundering proceeds of crime for organized crime (OC) groups (including Transnational OC groups), and assist these groups in avoiding LE attention. In addition, these professional money launderers are often distant from the predicate offences and so their illegal activities are difficult for LE to investigate and prosecute.

KEY FINDINGS

- In BC, there are professional money launderers who own/control MSBs that use various ML techniques including: structuring transactions between various MSBs, using nominees to manage and move millions of dollars through various accounts, collaborating worldwide with other money launderers, and using informal value transfer systems (IVTS) to assist their OC clientele
- There are intelligence gaps including: the number and identity of MSBs in BC and Yukon that are owned/operated by professional money, and which transnational organized crime (TNOG) groups these professional money launderers are associated to or are providing services for
- LE are faced with several challenges when investigating professional money launderers who own/control MSBs; they are third-party money launderers distant from the offence, which means it is hard to prove involvement, intent and knowledge; they are often not the focus of an investigation; and they often work at a transnational level exploiting vulnerabilities in multiple countries, multiple businesses and multiple financial channels¹

¹ Financial Action Task Force (FATF): Professional Money Laundering, July 2018, <http://www.fatf-gafi.org/publications/methodsandtrends/documents/professional-money-laundering.html>



BACKGROUND

In 2015, Canada's Department of Finance assessed that professional money launderers are one of the key ML threats in Canada, because TNOCs rely on their services and large, sophisticated ML operations rarely take place without their involvement².

Professional money launderers are those who specialize in laundering POC and offer their services for a fee to OC. They are not often involved in the commission of the predicate offence³. They are skilled at moving large amounts of illicit funds and play an essential role in facilitating and collaborating with other money launderers to diversify funds globally through different financial systems using multiple locations and nominees to avoid attention (from LE and other anti-money laundering agencies e.g. FINTRAC CBSA, CRA, Department of Finance Canada etc.)⁴. They also use various businesses and networks to create sophisticated operations that exploit global trade and financial systems⁵. A single professional money launderer can form the financial backbone of several criminal organizations, and can serve to connect several TNOC networks⁶.

There are two broad categories of services that professional money launderers use to move large amounts of funds: the initial handling of illicit funds, currency conversion and international money movement (the placement and/or "layering" stage), and the integration of funds into the legitimate

² Department of Finance Canada, Assessment of Inherent Risks of Money Laundering and Terrorist Financing in Canada – 2015, Unclassified, <https://www.fin.gc.ca/pub/mltf-rpcf/index-eng.asp>

³ Department of Finance Canada, Assessment of Inherent Risks of Money Laundering and Terrorist Financing in Canada – 2015, Unclassified, <https://www.fin.gc.ca/pub/mltf-rpcf/index-eng.asp>; V1 [REDACTED]; Financial Action Task Force (FATF): Professional Money Laundering, July 2018, <http://www.fatf-gafi.org/publications/methodsandtrends/documents/professional-money-laundering.html>

⁴ Department of Finance Canada, Assessment of Inherent Risks of Money Laundering and Terrorist Financing in Canada – 2015, Unclassified, <https://www.fin.gc.ca/pub/mltf-rpcf/index-eng.asp>; V1 [REDACTED].

⁵ Department of Finance Canada, Assessment of Inherent Risks of Money Laundering and Terrorist Financing in Canada – 2015, Unclassified, <https://www.fin.gc.ca/pub/mltf-rpcf/index-eng.asp>; V1 [REDACTED]

⁶ V1 [REDACTED]



economy (the second category of service). OC groups rely upon the use of MSBs and other IVTS for the initial movement of funds (the first category of service)⁷.

MSBs are non-banking persons or businesses which engage in money transfer and exchange systems including: currency/foreign exchange dealing; remitting or transmitting funds by any means (e.g. electronic funds transfer) and issuing or redeeming negotiable instruments (e.g. money orders, traveler’s cheques, etc.)⁸, and informal value transfer systems(IVTS) – (e.g. hawala)⁹.

Professional money launderers who own/control MSBs understand how to manipulate the transfer systems and use various methods and techniques to add complexities to their money laundering schemes. For example, they coordinate nominees who deposit someone else’s money into their own accounts, thus concealing the “true” owners of the funds, use structuring, or “smurfing”, methods to break down large transactions so they fall below the \$10,000 CAD reporting threshold,¹⁰ and layering transactions using other MSBs to facilitate Electronic Funds Transfers (EFTs)¹¹. Professional money

⁷ V1 [Redacted]

⁸ Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations (PCMLTFR) specifies that an MSB “means a person or entity referred to in paragraph 5(h) of the Act, <http://laws-lois.justice.gc.ca/eng/regulations/SOR-2007-121/>;

⁹ FINTRAC-Money Laundering and Terrorist Financing (ML/TF) Typologies and Trends for Canadian Money Services Businesses (MSBs), July 2010, Unclassified; FINTRAC, Risk-based approach workbook Money services businesses (MSB), June 2017, <http://www.fintrac-canafe.gc.ca/guidance-directives/compliance-conformite/rba/rba-msb-eng.asp>

¹⁰ “Smurfs” may also be used to physically deposit smaller amounts of cash through ATMs over a number of days and through multiple accounts, smuggle bulk cash, purchase bank drafts in the names of multiple nominees and, make deposits into the nominee accounts, which eventually transfers (via EFTs) the funds to accounts in foreign countries according to: Department of Finance Canada, Assessment of Inherent Risks of Money Laundering and Terrorist Financing in Canada – 2015, Unclassified, <https://www.fin.gc.ca/pub/mltf-rpcfai/index-eng.asp>; FATF, Money Laundering through Money Remittance and Currency Exchange Providers, June 2010, V1, V3: Ongoing Investigation

; V1 [Redacted]

¹¹ V1 [Redacted] V3: Ongoing Investigation [Redacted]



launderers who own/control MSBs have the ability to create false bookkeeping and conceal the "real" books from FINTRAC.¹²

Professional money launderers who own/control MSBs also use underground banking channels (i.e. IVTS¹³) where goods of value/money are moved, while the money remains within the original country¹⁴. There are 3 types of IVTS; one type of IVTS, criminal IVTS, is of great concern, as this provides OC with the ability to move illicit money to other OC groups (including to TNOC groups) in other countries¹⁵.

Criminal IVTS involves various people who serve different functions in the operation: controllers, collectors, coordinators, and transmitters¹⁶. Controllers run the financial networks and arrange for collectors to gather money and move the funds to the chosen destination using EFTs or cash¹⁷. A coordinator, an intermediary who manages part of the ML process for one or more controllers, may also

¹² V1

¹³ IVTS are also known as alternative money remittance systems and or "hawala and other similar service providers" (HOSSPs). Alternative money remittance systems may also vary in term according to specific ties to ethnic communities and may also be referred to as black market peso exchange, hawala, hundi, chitti, and undiyal. (according to Asia/Pacific Group (APG), APG Typologies Report on Trade-Based Money Laundering, 20 July 2012, <http://www.fatf-gafi.org/publications/methodsandtrends/documents/trade-basedmoneylaundryingtypologies.html>; Financial Action Task Force (FATF): The Role Of Hawala And Other Similar Service Providers In Money Laundering And Terrorist Financing, October 2013, <http://www.fatf-gafi.org/publications/methodsandtrends/documents/role-hawalas-in-ml-tf.html>

¹⁴ Asia/Pacific Group (APG), APG Typologies Report on Trade-Based Money Laundering, 20 July 2012, <http://www.fatf-gafi.org/publications/methodsandtrends/documents/trade-basedmoneylaundryingtypologies.html>; Financial Action Task Force (FATF): The Role Of Hawala And Other Similar Service Providers In Money Laundering And Terrorist Financing, October 2013, <http://www.fatf-gafi.org/publications/methodsandtrends/documents/role-hawalas-in-ml-tf.html>

¹⁵ Financial Action Task Force (FATF): The Role Of Hawala And Other Similar Service Providers In Money Laundering And Terrorist Financing, October 2013, <http://www.fatf-gafi.org/publications/methodsandtrends/documents/role-hawalas-in-ml-tf.html> There are 3 types of HOSSPs, Pure traditional (legitimate), Hybrid traditional (sometimes unwitting) and Criminal (complicit to criminality)

¹⁶ Financial Action Task Force (FATF): The Role Of Hawala And Other Similar Service Providers In Money Laundering And Terrorist Financing, October 2013, <http://www.fatf-gafi.org/publications/methodsandtrends/documents/role-hawalas-in-ml-tf.html>

¹⁷ Financial Action Task Force (FATF): The Role Of Hawala And Other Similar Service Providers In Money Laundering And Terrorist Financing, October 2013, <http://www.fatf-gafi.org/publications/methodsandtrends/documents/role-hawalas-in-ml-tf.html>



be used¹⁸. Controllers may reconcile settlements by using a transmitter, an intermediary who will receive and dispatch the money to the control of the controller. Transmitters may also assist at create false over or under value invoices to provide a false transfer history¹⁹.

Various "tokens", such as unique serial numbers from a bank note, may be used to authenticate the handover of the funds between the collectors and the couriers²⁰. USB tokens (thumb drives) that contain images of the serial numbers have been observed to be used to assist in international EFT transactions²¹. Criminal IVTS's that are used in assisting criminal activities have been known to operate other businesses (e.g. travel agencies, import/export businesses, prawn shops) which can provide additional benefits to their criminal clients.²² Criminal IVTS may also use third party payment methods to transfer illicit funds, commit import and export and fraud (e.g. trade-based money laundering - TBML).²³

The MSB sector is estimated to be relatively easy to enter and exploit²⁴; and there are several MSBs in Canada that are reported to be knowingly facilitating ML activities²⁵ and are managed by professional

¹⁸ Financial Action Task Force (FATF): The Role Of Hawala And Other Similar Service Providers In Money Laundering And Terrorist Financing, October 2013, <http://www.fatf-gafi.org/publications/methodsandtrends/documents/role-hawalas-in-ml-tf.html>

¹⁹ Financial Action Task Force (FATF): The Role Of Hawala And Other Similar Service Providers In Money Laundering And Terrorist Financing, October 2013, <http://www.fatf-gafi.org/publications/methodsandtrends/documents/role-hawalas-in-ml-tf.html>

²⁰ Financial Action Task Force (FATF): The Role Of Hawala And Other Similar Service Providers In Money Laundering And Terrorist Financing, October 2013, <http://www.fatf-gafi.org/publications/methodsandtrends/documents/role-hawalas-in-ml-tf.html>

²¹ V1 [REDACTED]

²² Financial Action Task Force (FATF): The Role Of Hawala And Other Similar Service Providers In Money Laundering And Terrorist Financing, October 2013, <http://www.fatf-gafi.org/publications/methodsandtrends/documents/role-hawalas-in-ml-tf.html>

²³ Financial Action Task Force (FATF): The Role Of Hawala And Other Similar Service Providers In Money Laundering And Terrorist Financing, October 2013, <http://www.fatf-gafi.org/publications/methodsandtrends/documents/role-hawalas-in-ml-tf.html>

²⁴ According to V1 [REDACTED] and EUROPOL Financial Intelligence Group. Why is Cash Still King? 2015 report, MSB are easy to exploit due to their nature of their product, transaction based system, few details need on clients and are sought after for their global reach



money launderers²⁶. Professional money launderers can own MSBs and their activities can be further supported by domestic and international professional money launderers and other "contacts" at certain locations.²⁷

Investigations focused primarily on professional money launderers who own/control MSBs and have not been actively pursued by LE in BC. Two OC groups are believed to be made up of professional money launderers who own/control MSBs have surfaced in police investigations within the last 5 years:

- V2: Informer Privilege [Redacted]

- V2: Informer Privilege [Redacted]

²⁵ V1 [Redacted]

²⁶ V1 [Redacted]

²⁷ V1 [Redacted]

²⁸ V3: Ongoing Investigation [Redacted]

²⁹ V3: Ongoing Investigation [Redacted]

³⁰ V3: Ongoing Investigation [Redacted]

³¹ V3: Ongoing Investigation [Redacted]



V2: Informer Privilege

Historically there are several MSBs with suspected connections to OC groups that have surfaced in police investigations³⁴, however, due to the lack of recent information and intelligence, it is unknown if they are still operating in a criminal capacity. It is assessed that the full extent of OC groups in BC who hire professional money launderers who own/control MSBs is unknown, as is the identity of professional money launderers who own/control MSBs in BC and Yukon noted as an intelligence gap.

POC investigations are often lengthy, complex and require specialized investigational teams, all of which strains police budgets and resources. As well, LE investigations often focus on predicate offences, and less on the money laundering aspect of the investigations. Professional money launderers are often not involved in the commission of the predicate offences³⁵ making it challenging to prove the legal

³² V1

³³ V1

³⁴ V3: Ongoing Investigation

³⁵ Department of Finance Canada, Assessment of Inherent Risks of Money Laundering and Terrorist Financing in Canada – 2015, Unclassified, <https://www.fin.gc.ca/pub/mltf-rpcfai/index-eng.asp> ; Financial Action Task Force (FATF): Professional



requirements to connect the act of money laundering (Section 462.31- POC) to the specific knowledge and intent³⁶. Even when they are charged, professional money launderers are likely to receive lesser charges (e.g. conspiracy, fraud) and face lesser sentences³⁷.

Professional money launderers with MSBs also often work at a transnational level; which involve other jurisdictions and countries getting involved with the investigation. This could be a great challenge for those that are involved in criminal IVTS as funds and settlements across multiple countries through value or cash outside of the banking system. ³⁸ In addition, commingling of licit funds and illicit proceeds, which is used to mask the source of the POC, also poses a great challenge to LE.³⁹

Money Laundering, July 2018, <http://www.fatf-gafi.org/publications/methodsandtrends/documents/professional-money-laundering.html>

³⁶ V1

³⁷ FATF/APG (2016), Anti-money laundering and counter-terrorist financing measures - Canada, Fourth Round Mutual Evaluation Report, FATF, Paris, www.fatf-gafi.org/publications/mutualevaluations/documents/mer-canada-2016.html; RCMP Anti-Money Laundering Strategy, Nov 10, 2015, protected A

³⁸ Financial Action Task Force (FATF): The Role Of Hawala And Other Similar Service Providers In Money Laundering And Terrorist Financing, October 2013, <http://www.fatf-gafi.org/publications/methodsandtrends/documents/role-hawalas-in-ml-tf.html>

³⁹ Financial Action Task Force (FATF): The Role Of Hawala And Other Similar Service Providers In Money Laundering And Terrorist Financing, October 2013, <http://www.fatf-gafi.org/publications/methodsandtrends/documents/role-hawalas-in-ml-tf.html>



This document has been vetted, and as a result some footnotes have been generalized, and/or may have been omitted.

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V1

