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## Professional money laundering in Canada

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### Highlights

- (Prot. B) Professional money launderers engage in large-scale money laundering on behalf of transnational organized crime groups and other major criminal actors. These individuals sell their services and are involved in the majority of sophisticated money laundering schemes.
- [REDACTED]
- (Prot. B) FINTRAC assesses that professional money laundering networks are critical to the laundering of criminal proceeds on behalf of transnational organized crime groups and other major criminal actors operating in Canada, through the use of both the legitimate financial system and informal financial networks.
- (Prot. B) FINTRAC is increasingly aware of Canada-based professional money launderers employing trading companies and trade-based money laundering techniques to launder criminal proceeds on behalf of transnational organized crime groups [REDACTED]
- (Prot. B) Professional money launderers use money services businesses and informal value transfer systems for cash pickup and transfer schemes, and for clients looking to overcome barriers to the global financial system. These schemes mainly involve money flows to and from [REDACTED]
- (Prot. B) FINTRAC is also concerned about the connections of professional money launderers to legal professionals, precious metals dealers, payment processing companies, [REDACTED] religious charities and alternative banking platforms.
- (Prot. B) While FINTRAC assesses professional money laundering networks to be primarily dedicated to laundering the proceeds of drug trafficking on behalf of transnational organized crime groups and other major criminal actors, they are also used for other illicit activities, such as [REDACTED] and fraud. In addition, these networks are used to help individuals [REDACTED]

### Introduction

(U) This paper provides an overview and assessment of trends and developments related to professional money laundering in Canada, based on financial and criminal intelligence available to FINTRAC, as well as open source information. Professional money launderers engage in large-scale money laundering on behalf of transnational organized crime groups and other major criminal actors. These individuals are sophisticated, and capable of sustaining complex and hard-to-detect money laundering operations over the long term. Professional money launderers collect cash proceeds of crime and transfer these funds electronically, predominantly through trade, via money services businesses and through informal value transfer systems. Professional money launderers can be involved in one or all stages of the money laundering cycle, but also in related tasks, such as setting up companies, forging documents and providing cyber expertise.

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(U) While professional money launderers may work in specialized fields, such as accounting, banking and the law, FINTRAC has observed that they often are the owners of, or associated with, money services businesses or trading companies. Professional money launderers use their occupation and knowledge, as well as the infrastructure associated with their field and networks, to facilitate money laundering for criminal clients and to provide a veneer of legitimacy to illicit activities.

(U) International money controllers and money brokers are important types of professional money launderers. They have direct contact with numerous criminal organizations and actors in multiple countries, and arrange for the collection of criminal proceeds and the delivery of equivalent value to its destination.

## Analysis

### (U) Trade-based money laundering

(U) Trade-based money laundering broadly refers to the misuse of commerce—specifically, the trade of goods and services—to launder criminal proceeds. In a 2006 report, the Financial Action Task Force defined trade-based money laundering as “the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimise their illicit origin” (see also FINTRAC’s August 2016 research report, “Trade-Based Money Laundering: A Perpetual Loophole?”).

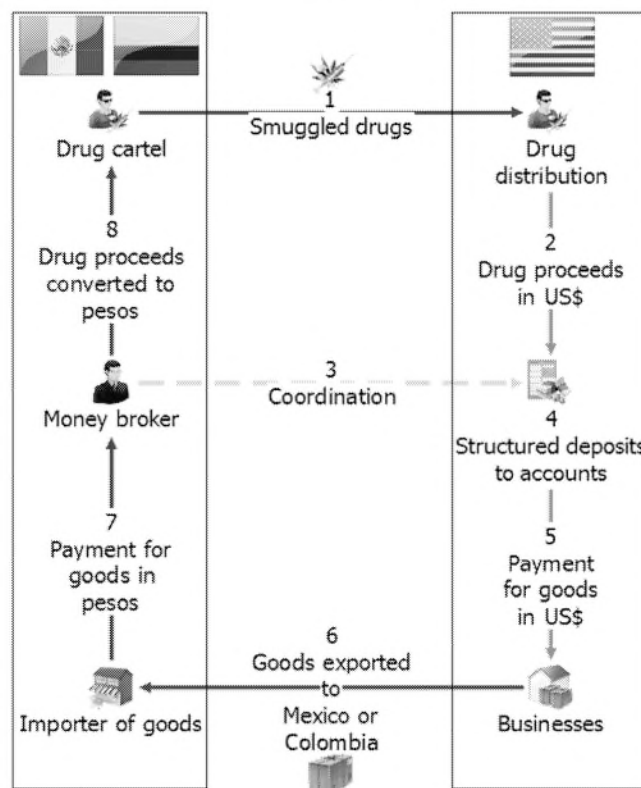
Trade-based money laundering often involves the use of a Black Market Peso Exchange scheme. Figure 1 provides an overview of a typical scheme, which works as follows. A Mexican or Colombian drug cartel smuggles drugs to the U.S. (1). A money broker coordinates the pickup of U.S.-dollar cash drug proceeds (2, 3). The proceeds are placed into the U.S. financial system through structured cash deposits (4). A Mexican or Colombian importer buys the U.S. dollars from the broker to purchase goods, which are shipped to Mexico or Colombia, and pays the broker with pesos (5, 6, 7). Finally, the broker returns the pesos to the cartel (8).

(Prot. B) Trade-based money laundering is widely reported to be a significant global problem. While it has historically been a challenge to identify activity of this type with connections to Canada, FINTRAC has recently observed what it suspects to be a number of professional money laundering schemes linked to transnational organized crime groups, based on the analysis of financial and criminal intelligence, as well as open source information.

#### (U) Variations on the Black Market Peso Exchange scheme

(Prot. B) In 2017, FINTRAC identified four professional money laundering schemes that are variations of, or related to, the Black Market Peso Exchange. In a typical scheme of this type, the cash proceeds of drug sales are structured in domestic

(U) Figure 1: The Black Market Peso Exchange scheme

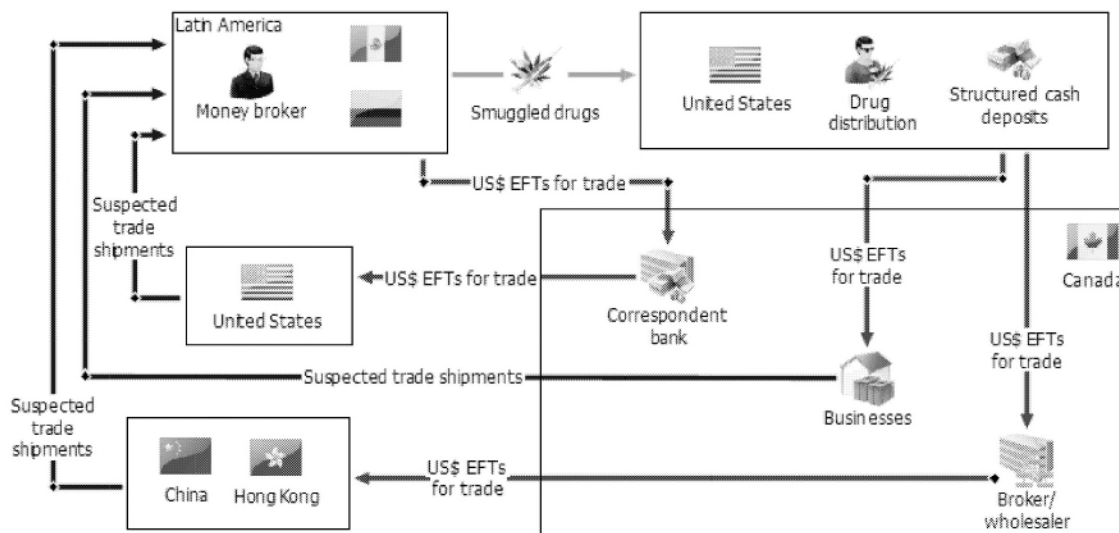




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bank accounts. However, FINTRAC has observed that the Canadian versions of such schemes appear to involve suspected drug trafficking proceeds held in Latin America and the U.S. being sent to Canada, or routed through a Canadian financial institution acting as a correspondent bank, before being forwarded to multiple jurisdictions, including China, Hong Kong and the U.S. Figure 2 provides an overview of the Canadian variations of the Black Market Peso Exchange scheme FINTRAC has observed.

(U) Figure 2: Canadian variations of the Black Market Peso Exchange scheme



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(Prot. B) The wholesaler was the beneficiary of EFTs ordered by Mexican entities that also ordered EFTs for other foreign entities linked through open source information to U.S. law enforcement investigations. This included one probe into a Miami-based Black Market Peso Exchange linked to the laundering of drug proceeds for Mexican and Colombian cartels.

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**is withheld pursuant to sections**

**15(1) I.A, 16(1)(c)**

**of the Access to Information Act**

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(Prot. B) These four variations on the Black Market Peso Exchange fall into two distinct categories:

- (Prot. B) **Schemes involving proceeds of transnational organized crime activities generated outside Canada:** The **first two schemes** involved U.S.-dollar proceeds of Mexican and/or Colombian drug cartels held in Latin America and the U.S. being remitted as trade payments for textiles, agri-food products and heavy equipment to Canadian wholesalers, brokers and traders. In turn, these entities remitted payments to suppliers primarily located in Asia and the Americas. Alternatively, funds held in Latin America and the U.S. were remitted to suppliers in Asia and the Americas via a Canadian financial institution acting as a correspondent bank. From there, goods were likely shipped to Latin American businesses either connected to drug cartels or that were paying for goods through cartel-linked peso brokers.

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- (Prot. B) **Schemes involving proceeds of transnational organized crime activities generated domestically:** While the **third and fourth schemes** also likely involved proceeds of transnational organized crime activities generated outside Canada, some of the observed activity possibly related to domestic proceeds of crime—generated from cash pickups connected to drug trafficking—being remitted as trade payments for goods, including electronics, to entities primarily located in [REDACTED] The goods, which included electronic consumer products bought in bulk domestically, were likely ultimately shipped to Latin American businesses.

(Prot. B) Alternatively, it is possible that minimal trade took place as part of these four schemes, and that trading entities were facilitating financial transfers under the pretense of trade as part of an informal value transfer system. While it is very likely that this occurred to some extent in these schemes, FINTRAC's analysis of EFT beneficiaries suggests that a sizeable portion of financial transfers likely related to actual trade.

**(U) Complicit money services businesses and criminal informal value transfer systems**

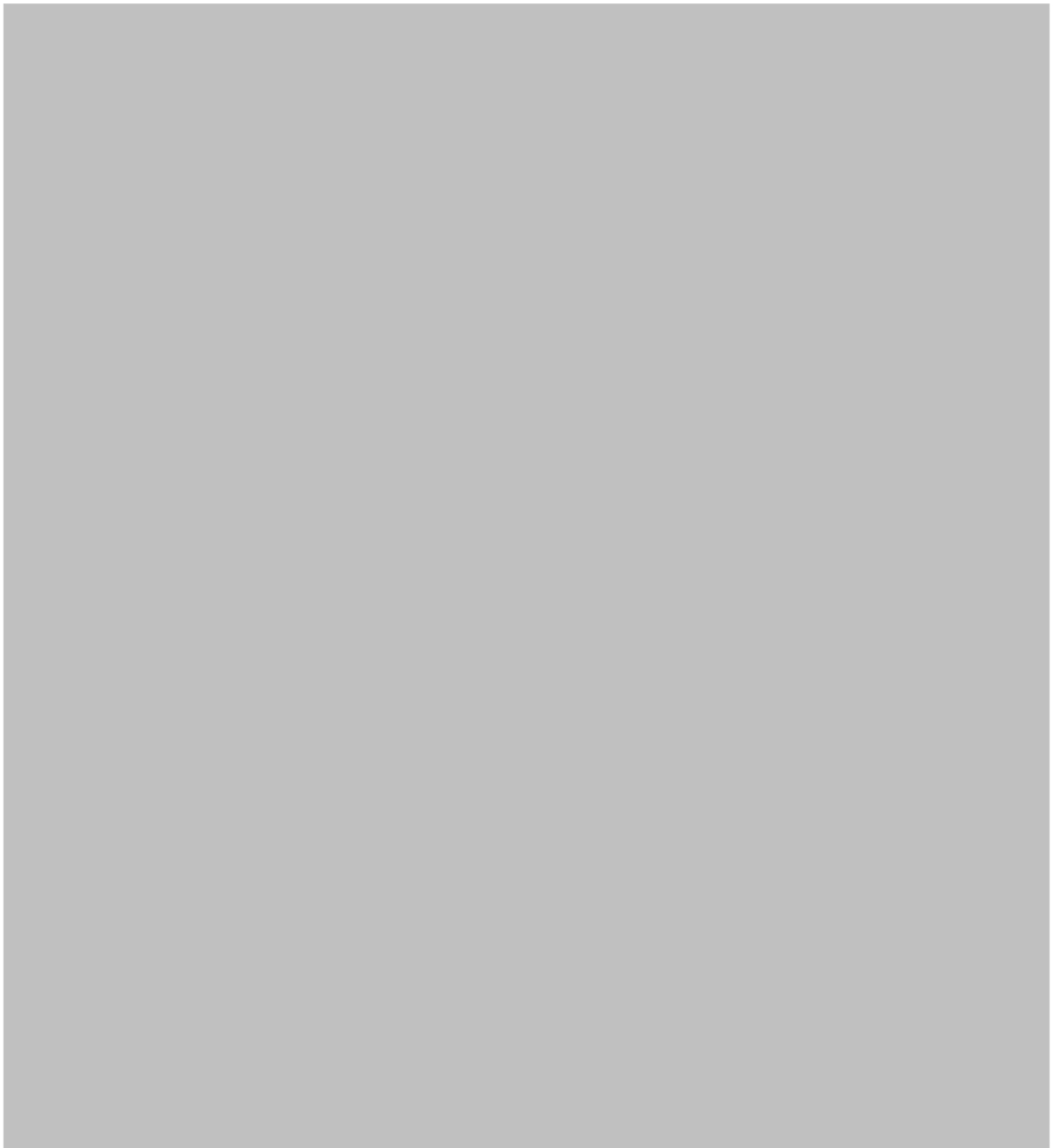
(U) Professional money laundering in Canada also takes place via money services businesses (MSBs) and informal value transfer systems. A professional money launderer may own or have connections to one or several MSBs, which they use to place and transmit funds using both formal (electronic funds transfers) and informal value transfer systems (*hawalas* and others). In Canada, entities that transmit funds either of these ways are recognized as MSBs and must register with FINTRAC. (For more information, refer to FINTRAC's 2016 financial intelligence report, "Criminal Informal Value Transfer Systems (IVTS).") Through its data holdings, FINTRAC identified two major professional money laundering networks that used both formal and informal value transfer systems and that are currently under investigation by law enforcement.

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(Prot. B) Complicit MSBs and informal value transfer system operators and associates of both professional money laundering networks used banks as intermediaries, had accounts with flow-through activity and frequently structured

large cash deposits in their personal and business accounts. Their cash deposits were followed by purchases of bank drafts and cheques to the benefit of multiple unrelated third parties or themselves.

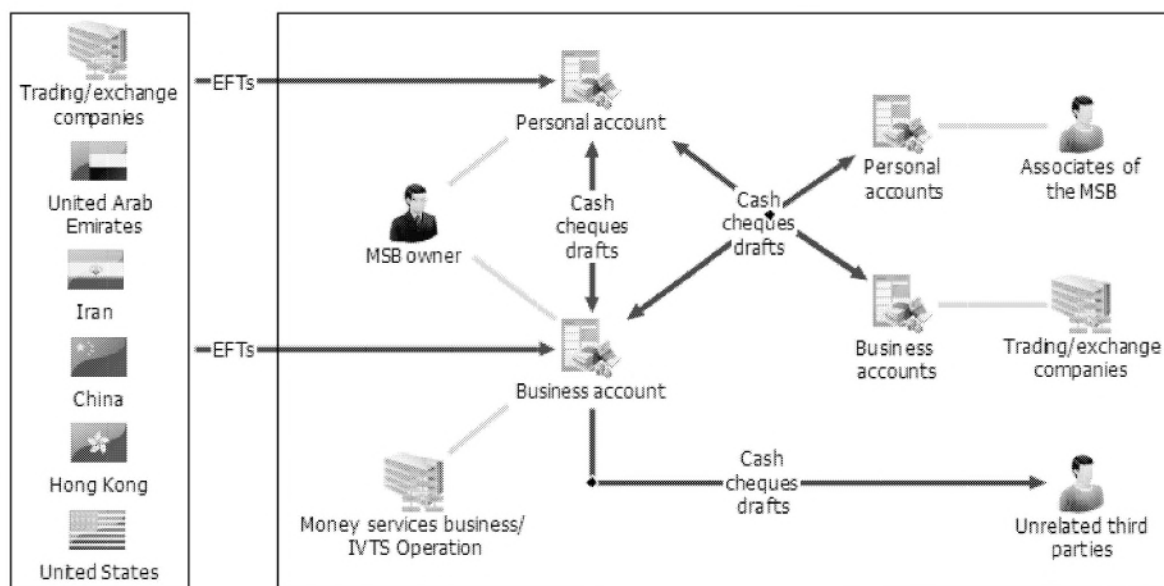
FINTRAC notes the highly diversified criminal business models that professional money laundering networks employed in Canada and internationally in order to help transnational organized crime groups and other major criminal actors evade detection.

Professional money laundering networks exploit MSBs and informal value transfer systems due to their need to move value across jurisdictions and connect with other networks. Ultimately, the activities of complicit MSBs and criminal informal value transfer system operators likely indicate the presence of a professional money laundering network.

(Prot. B). A typical model for professional money launderers using MSBs (Figure 9) features deposits and withdrawals of cash, cheques and drafts between MSB accounts and the personal accounts of associates of MSBs and informal value transfer system operators. Furthermore, funds moved through EFTs are commonly observed as being dispersed as cash, cheques and drafts to third parties, with this activity typically involving Canadian and foreign trading and exchange companies.

(Prot. B) The key high-risk jurisdiction for professional money laundering via MSBs and informal value transfer systems is [REDACTED] which accounted for nearly three quarters of all individuals and entities that ordered and were beneficiaries of the EFTs reviewed for this report, at a value of more than CAN\$510 million.

(Prot. B) Figure 9: Typical professional money laundering activities through money services businesses





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### (U) Other areas of concern

(U) Since professional money launderers are highly skilled professionals, they have specific, expert and diverse methods for laundering money. They are also connected to various professions, trades, industries and locations that are of concern to FINTRAC.

(Prot. B) **Legal professionals** are a prevalent part of various money laundering schemes and are key enablers of professional money laundering on behalf of transnational organized crime groups and other major criminal actors. These professionals purchase negotiable instruments, such as certified cheques and banks drafts, and order EFTs to the benefit of entities related to transnational organized crime. In addition, legal professionals have the ability to create companies, trusts and other legal arrangements that obscure beneficial owners (the ultimate owners and controllers of persons, companies or funds) that may be laundering the proceeds of crime. FINTRAC analysis found that lawyers practising real estate and corporate law were more likely to be linked to law enforcement investigations than were other legal professionals, with the following services being the most prevalent in money laundering schemes: facilitating the integration of illicit proceeds in the real estate sector; creating, operating and managing companies or trusts; acting as nominee shareholders or directors of companies or trusts; and providing a business address.

(Prot. B) The trading of **gold and precious metals** is also of concern. [REDACTED]

(Prot. B) Previous FINTRAC analysis found links between **payment processing companies** and professional money laundering networks. These entities have been linked to fraud, the production and [REDACTED] and transnational organized crime groups.

(Prot. B) Some entities and individuals suspected of being connected to professional money laundering networks are located [REDACTED]. Professional money laundering networks are likely leveraging [REDACTED] casinos and [REDACTED] online gambling sites.

(Prot. B) FINTRAC has observed links between individuals suspected of being connected to professional money laundering networks and **religious charities**. From 2012 to 2017, suspicious transactions reported to FINTRAC about religious charities more likely related to suspicions of money laundering than of terrorist financing.

(Prot. B) While FINTRAC suspects the growing use of **virtual currencies and alternative banking platforms** by professional money laundering networks, [REDACTED]

## Assessment of professional money laundering in Canada

(Prot. B) FINTRAC assesses that professional money laundering networks are critical to the laundering of criminal proceeds on behalf of major criminal actors and transnational organized crime groups operating in Canada. Professional money launderers have been found to operate in Canada almost exclusively in the urban and surrounding areas of B.C., Ontario and Quebec. FINTRAC has observed these networks carrying out the following activities in these regions:

- B.C.: using MSBs, casinos, real estate and, to a lesser extent, trading companies for professional money laundering activities ([REDACTED])
- Ontario: using MSBs, trading companies and real estate for professional money laundering activities; and

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- Quebec: using trading companies and, possibly, charities and [REDACTED] for professional money laundering activities.

(Prot. B) FINTRAC assesses that international professional money laundering networks with connections to Canada [REDACTED] to find counterparts to enable them to move value without actually moving funds, including using variations of Black Market Peso Exchange schemes and informal value transfer systems.

(Prot. B) Although FINTRAC assesses the professional money laundering networks analyzed for this report to be primarily dedicated to the laundering of the proceeds of drug trafficking on behalf of transnational organized crime groups, these networks are used for other illicit activities, such as [REDACTED] and fraud. In addition, they are used to help individuals [REDACTED]

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A **Financial Intelligence Report** provides fundamental intelligence on the development, nature and/or extent of money laundering or terrorist financing inside and/or outside Canada to assist FINTRAC clients in detecting, preventing and deterring money laundering and terrorist financing.

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