

**Money Laundering in British Columbia:
A Review of the Literature**

Submitted to:
The Cullen Commission of Inquiry into
Money Laundering in British Columbia

Submitted by:
Stephen Schneider, Ph.D.
Saint Mary's University

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The contents and analysis of this document are solely those of the author and do not necessarily reflect those of the Cullen Commission.

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Glossary of Abbreviations

AML - Anti-Money Laundering
BCLC - British Columbia Lottery Corporation
BCCFO - British Columbia Civil Forfeiture Office
CBSA - Canada Border Services Agency
CFSEU - Combined Forces Special Enforcement Unit
CISC - Criminal Intelligence Service Canada
CLEU - Coordinated Law Enforcement Unit
COC - Chinese Organized Crime
CTF - Counter-Terrorist Financing
DEA - Drug Enforcement Agency
DPMS - Dealers in Precious Metals and Stones
EFT - Electronic Funds Transfer
FINCEN - Financial Crimes Enforcement Network
FINTRAC - Financial Transactions and Reports Analysis Centre of Canada FATF - FATF
FATF - Financial Action Task Force
GPEB - Gaming Policy and Enforcement Branch
HAMC - Hells Angels Motorcycle Club
HLT - High-Level Threat
IIGET - Integrated Illegal Gambling Enforcement Team
IPOC - Integrated Proceeds of Crime
IVTS - Informal Value Transfer System
ML - Money Laundering
MMF - Mass Marketing Fraud
MMOG - Massively Multiplayer Online Game
MSB - Money Service Business
OCG - Organized Crime Group
OCS - Ontario Securities Commission
OECD - Organisation for Economic Co-operation and Development
OMG - One-percenter Motorcycle Gangs
OTC - Over the Counter
POC - Proceeds of Crime
PML - Professional Money Launderer
PRC - People's Republic of China
RCMP – Royal Canadian Mounted Police
STR - Suspicious Transaction Report
TBML - Trade-based Money Laundering
TF - Terrorist Financing
TOC – Transnational Organized Crime
YVR - Vancouver International Airport

1. Executive Summary

This document provides a review of literature that is concerned with describing and analyzing the nature and characteristics of money laundering (ML) with emphasis on Canada and British Columbia. This includes literature that provides a conceptual and theoretical overview of ML, its relationship with profit-oriented organized crime and criminal groups, a breakdown of ML methods and techniques, the commercial and financial sectors and professionals used to launder money, how the informal (underground) economy is used, as well as the effects that ML may have on organized crime, the economy, and society. These issue areas are applied to Canada and B.C. specifically and include a discussion of the so-called “Vancouver Model,” in addition to an analysis of the factors that put the country, the province, and the Lower Mainland at risk of ML. Because this review relied exclusively on public sources, including the news media, there are limitations to the accuracy and completeness of its findings, especially with respect to money laundering in B.C. and the Vancouver Model in particular.

Conceptual Overview

Money laundering can be broadly defined as the process by which one converts or transfers cash or other assets generated from profit-oriented crimes to conceal their illegal origins.

A comprehensive money laundering operation satisfies three essential objectives: (1) it *converts* the cash proceeds of crime to a less suspicious form, (2) it *conceals* the criminal origins and ownership of the funds and/or assets, and (3) it *creates* a legitimate source for the funds and/or assets.¹

To satisfy the aforementioned objectives, a comprehensive ML process entails five phases:

- (i) placement - the cash proceeds of crime physically enter the legitimate economy,
- (ii) layering – the illicit funds are circulated through various economic sectors, companies, professionals, and commercial or financial transactions to obscure any paper trail that can be traced to the criminal source,
- (iii) justification – guises are used to create the perception that the source of funds is legitimate and, as such, the transactions undertaken with those funds are “justified,”
- (iv) integration – the proceeds of crime are fully integrated into the legitimate economy so they are in a position to be used for personal or criminal purposes, and
- (v) extraction/repatriation – the laundered funds or assets are returned to the offenders, so they can either reap the benefits of their labour or to reinvest the funds in other criminal pursuits.

Sources of the Proceeds of Crime Laundered in Canada and B.C.

According to a 2015 money laundering threat assessment report from Finance Canada, the criminal activities in Canada that are most associated with generating the proceeds of crime to be laundered are

¹ Schneider, S. (2004). *Money laundering in Canada: An analysis of RCMP cases*. Toronto: Nathanson Centre for the Study of Organized Crime and Corruption, 11

fraud, corruption and bribery, counterfeiting, tobacco smuggling, and drug trafficking.² British Columbia may be most vulnerable to ML from the drug trade, which includes laundering revenue from the sale of imported substances (heroin, fentanyl, cocaine) as well as domestic marijuana and synthetic drug production. Capital flight from China, including the proceeds of government corruption and financial crimes in that country, has also been identified as a source of illicit funds in B.C.³

For years, organized crime in B.C. has been dominated by One-Percenter Motorcycle Gangs (the Hells Angels in particular) and Chinese criminal networks. Mexican drug cartels also represent an emerging threat. All three generate considerable revenues from drug trafficking, which are laundered in the province, nationally, and internationally.

Economic Sectors Used for Money Laundering

The legitimate economy is highly vulnerable to money laundering for at least two reasons. First, the legitimate economy has a vast array of industries, assets, services, and instruments that are conducive to satisfying the inherent goals of ML while also sustaining the essential phases of the ML process. Second, the very goal of ML – creating a façade of legitimacy for the proceeds of crime – is best achieved through the legitimate economy compared to the underground (criminal) economy. According to a 2015 Finance Canada ML risk assessment report, the commercial and financial sectors most vulnerable to ML are corporations (due to their ability to hide beneficial ownership), domestic banks, money service businesses, and express trusts.⁴ In recent years, the sectors of the B.C. economy that appear to be most vulnerable to money laundering are banks and other deposit institutions, real estate, casinos, and motor vehicles.

In Canada, banks are the prime conduit through which the proceeds of crime are placed into the legitimate economy (via cash account deposits). They are also popular as laundering vehicles because they convert cash into alternative assets (e.g., monetary instruments) and can quickly transport money internationally (via electronic fund transfers). Deposit institutions can facilitate layering (e.g., through fund transfers between multiple accounts), justification (depositing funds in commercial accounts under the guise of legitimate revenue), and extraction/repatriation (laundered money can be withdrawn from accounts in cash or as a monetary instrument). Canadian banks are seen as particularly attractive to international ML operations due to their stability, sophistication, range of services, client confidentiality, and their presence in other countries (including branches and correspondent banks in the U.S., Asia, and financial haven countries).

Real estate has many attributes that make it an attractive destination for the proceeds of crime. It is a stable investment that also supplies a home in which the offender can live and work while houses and rural properties have also been used in Canada for the cultivation of marijuana and the manufacture of synthetic drugs. The proceeds of crime can be funnelled to real property through down payments, mortgages, legal trust accounts, as well as construction and renovation expenses. Real estate investments can also create a legitimate revenue stream, such as rental income, which can be co-

² Finance Canada. (2015). *Assessment of inherent risks in money laundering and terrorist financing in Canada*. Ottawa: Department of Finance Canada, 19

³ German, P. (2018). *Dirty money, Part I. An independent review of money laundering in Lower Mainland casinos conducted for the Attorney General of British Columbia*. Vancouver: Peter German and Associates, 35-36

⁴ Finance Canada, 2015, 33

mingled with criminal revenue. In B.C., it is alleged that drug money is being funnelled to real estate purchases via private mortgages and loans issued by underground money service business and professional money launderers. Under these circumstances, the drug money is laundered through repayment of the private mortgage.

Casinos can satisfy ML objectives in two fundamental ways. First, the cash proceeds of crime can be converted into a less suspicious asset. This asset may simply be casino chips, but ultimately the goal is to convert the casino chips into a cheque issued by the casino. Second, the proceeds of crime can be claimed as casino winnings, thereby supplying a seemingly legitimate source of funds. According to the literature, under the Vancouver Model the cash proceeds of drug trafficking were allegedly laundered at B.C. casinos in three ways: (i) chips were purchased and then cashed in for a casino-issued cheque, (ii) small denominations of cash were converted to larger denominations, and (iii) bank drafts previously purchased with drug cash were deposited into casino patron accounts and the funds withdrawn in the form of a casino-issued cheque. In response to these allegations, an audit commissioned by British Columbia Lottery Commission led it to conclude that there was no systemic pattern of ML activity concerning cheques of \$10,000 or more being issued by River Rock Casino between 2014 to 2016.⁵

Professionals used to Facilitate Money Laundering

In general, the professionals that encounter the proceeds of crime can be separated into two broad categories. The first category includes the front-line staff of retail businesses that come into contact with individuals laundering money, such as bank tellers, real estate agents, automobile dealers, currency exchange staff, and jewellery store salespeople, among others. This second group includes those with more specialized skills, expertise, powers, and resources. Lawyers are particularly well-positioned to facilitate ML. They can help set up companies and bank accounts and facilitate real estate transactions. They are particularly valued due to legal trust accounts into which the (cash) proceeds of crime can be deposited. Solicitor-client confidentiality can also be of immense benefit when trying to conceal criminal ownership of dirty money and ill-gotten assets.

Legitimate Transactions used for Money Laundering

Some of the most common transactions and assets used to launder the proceeds of crime in Canada include cash deposits (in bank accounts, trust accounts, casino patron accounts, investment brokerage accounts), wire transfers, monetary instruments (bank drafts and cashier cheques), currency exchange, denomination exchange, securities trading, and the purchase of valuable assets, including real estate, cars, and jewellery.

Money Laundering Methods and Techniques

A number of ML methods and techniques can be undertaken to avoid suspicion. These include structuring cash deposits and other transactions so they fall below the reporting threshold of \$10,000, hiding the true ownership of criminally-derived money and assets (through the use of false

⁵ Preface from BCLC entitled "Assessment of AML Controls at River Rock Casino: Analysis of Cheques Issued 2014-2016" in Ernst and Young LLP Canada. (2019). *River Rock Casino Report: Verified Win, Return of Funds and Convenience Cheque Analysis*. Vancouver: E&Y LLP Canada

identification, nominees, trust accounts), establishing shell companies, setting up accounts in financial haven countries, and claiming the criminal proceeds as revenue from a legal business.

Money Laundering in the Underground Economy

Some groups and individuals will facilitate money laundering through surreptitious, unregulated, and largely illegal services. In addition, there are certain unregulated (international) systems, such as informal value transfer systems (IVTS), that deliberately operate in the underground economy and are highly amenable and susceptible to money laundering and terrorist financing. Specifically, ML in the underground economy is exemplified by (i) unregulated money service businesses and ML professionals involved in “third-party” laundering for a fee or commission, (ii) informal value transfer systems, which are used to move the “value” of proceeds of crime internationally, and (iii) trade-based money laundering, a variation on IVTS that moves the cash proceeds of crime and/or its value internationally through commercial trade transactions.

The Vancouver Model

The Vancouver Model is a moniker applied to “complex networks of criminal alliances” and the methods used to transfer and launder the proceeds of crime in B.C. and internationally.⁶ The alleged suspects at the core of this network were Paul King Jin and Silver International Investments Ltd., both based in Richmond. Their clients were reportedly Chinese nationals illegally transferring money out of China to Canada and criminal organizations involved in drug trafficking. The principal activities allegedly undertaken by Jin and Silver International were:

- facilitating capital flight from China to Canada (via IVTS) by wealthy Chinese nationals, corrupt government officials, and financial crime offenders,
- collecting the cash proceeds of drug trafficking from other criminal organizations,
- using the drug money to supply, in Canada, the cash equivalent of the value of the funds illegally transferred out of China,
- laundering the drug cash through two main routes: casinos and real estate, and
- transferring illicit money and value to and from China, as well as other countries, in order to (i) settle the accounts between Silver International and those who were recipients of the drug cash and (ii) finance the purchase of drugs in source countries.

If this account is accurate, Jin and Silver International would have allegedly benefited financially from this ML conspiracy through commissions on all transactions conducted, interest on loans provided, as well as claims against properties that were provided real estate mortgage financing.

Effects of Money Laundering

For years, red flags have been raised over the pernicious effects that money laundering reportedly has on the economy, public institutions, and society as a whole. Notwithstanding the lack of rigorous data, theorized and anecdotal accounts of the effects of money laundering include the following: undermining the legitimate private sector (giving illegitimate businesses unfair advantages over competing legitimate

⁶ Langdale, J. (2017). *Impact of Chinese transnational crime on Australia: Intelligence perspectives*. Lecture to the New South Wales Police Force’s intelligence conference, Nov. 2, 2017. This report will also refer to Project E-Pirate, a police investigation that probed some or all of this network.

companies); threatening the solvency, liquidity, reputation and integrity of the financial markets (resulting in the loss of investor and public confidence); adversely affecting currencies and interest rates, distorting the economy; raising consumer prices and corrupting private and public sector actors.

The literature also argues that ML is a threat because of the support it provides for organized crimes, like drug trafficking, and the criminal offenders and organizations behind such crimes. One of the effects may be an “increase in crime” because “money laundering makes criminal activities worthwhile and provides criminal organizations with capital they can use to further expand their criminal activities.”⁷

Effects of Money Laundering in B.C.

The ML operation allegedly carried out through the Vancouver Model directly benefited drug trafficking not only by laundering drug cash; it also used an IVTS and other means to transfer the laundered funds from Canada to offshore accounts, which reportedly were then used to finance illegal drug purchases. An Expert Panel convened by the B.C. government concluded that money laundering through real estate in B.C. was sufficient to have raised real estate prices by approximately five percent, which directly contributed to the province’s housing affordability problems.⁸

Discussion and Analysis: Factors that put Canada and B.C. at an elevated risk of money laundering

According to the literature, Canada is vulnerable to ML for numerous reasons:

- it has a large criminal underground that includes various profit-oriented crimes such as drug trafficking, fraud, counterfeiting, and smuggling;
- it is home to a wide range of criminal enterprises from independent drug trafficking gangs to transnational criminal organizations,
- it is a source for illegal drugs (such as marijuana and crystal meth) and also a transit country for cocaine and money destined for the U.S. from South America, the Middle East and Asia;
- it is located next to the United States and has significant ties to China;
- it has a sophisticated banking and financial system (with international branches and correspondent banks) that offer a range of the services amenable to ML;
- it is recognized as a multicultural and multiethnic country with a stable economy and strong democratic institutions, and
- it is seen as being soft on crime with lesser penalties for drug trafficking financial crime offences, relative to the U.S.

B.C. also has unique qualities that may make it even more vulnerable to ML compared to other parts of Canada. Among Vancouver’s characteristics that make it susceptible to organized crime and money laundering, according to German:

- a large international airport serviced by numerous Asian carriers;
- a large port which faces Asia and is primarily concerned with cross-Pacific trade;
- close proximity to the U.S., such that almost all residents live within one hour of the border;

⁷ Ferwerda, J. (2013). The effects of money laundering, Ch. 3 (pp. 35-43) in Unger, B., & van der Linde, D. (Eds.). (2013). *Research handbook on money laundering*. Cheltenham: Edward Elger, 38-41

⁸ Expert Panel on Money Laundering in BC Real Estate (Maureen Maloney, Tsur Somerville, Brigitte Unger). (2019). *Combating money laundering in BC real estate*. Vancouver: Expert Panel on Money Laundering in BC Real Estate, 2

- reciprocal, visa-free access to Mexico;
- most domestic and many international banks;
- a high-tech sector, including leading-edge encryption industries;
- large and well-established ethnic diasporas with strong foreign ties; and
- the early acceptance of cryptocurrency.⁹

The province's strong economic, trade, cultural and migration ties to China are all over-arching factors that have increased the vulnerability of the Lower Mainland to organized crime and money laundering, (and the emergence of the purported Vancouver Model specifically).

Greater Vancouver has also had a long and vibrant drug trade that includes the involvement of such high-intensity threats as the Hells Angels and Chinese criminal networks. Drug smuggling and trafficking in B.C. is buttressed by its commercial marine ports, its proximity to and trading ties with China, easy access to and from the U.S., and the presence of one of the largest addict populations in the country.

Two other factors may have also made B.C. particularly attractive to money laundering, as purportedly exposed by the Vancouver Model: legal casinos that catered to Chinese VIP gamblers and an attractive real estate market. The vulnerability of Greater Vancouver's real estate market to ML has been heightened by its popularity among wealthy Chinese nationals as an investment and a place to call home.

While the legitimate economy will continue to be highly vulnerable to ML, equal attention must be paid to systems and methods that exist in the underground economy and the specialized laundering services and professionals that take advantage of them. Perhaps the most significant ML threat for B.C. and Canada that can be gleaned from the literature is the emergence of money laundering professionals and entities that combine legitimate commercial and financial sectors and transactions, on the one hand, with those methods and techniques that exist solely in the underground (and virtual) economy. That the main suspects in E-Pirate Investigation were reportedly able to use laundered drug cash and informal value transfer systems to finance the purchase of illegal drugs on the international market suggests these underground systems and methods even more of a threat.

⁹ German, P. (2019). *Dirty money, part II. Turning the tide: An independent review of money laundering in B.C. real estate, luxury vehicle sales & horse racing*. Vancouver: Peter German and Associates, 2019, 39-40

2. Introduction

This document provides a review of literature on money laundering (ML) in British Columbia, while also supplying a national perspective and coverage of the theoretical literature.

Specifically, the goal of this report is to review the literature that is concerned with describing and analyzing the nature and characteristics of ML. This includes providing a conceptual overview of the topic, such as definitions, theories, concepts, typologies, objectives, phases, and its connections to profit-oriented organized crimes. The bulk of the report is concerned with empirical literature (including case studies) that describes and examines the nature of ML in B.C. and Canada, including:

- Sources of the proceeds of crime; in other words, predicate criminal activities and criminal organizations that produce the illicit revenue
- The commercial and financial sectors of the economy that are commonly used to launder the proceeds of crime, addressing such fundamental questions as:
 - how this sector satisfies ML objectives (why it is vulnerable to ML)
 - the role this sector plays in different ML phases
 - services, products, assets, instruments, and expertise used
 - ML techniques specific to this sector
- Professionals and occupations that are vulnerable to money laundering
- How the informal (underground) economy is used for ML purposes both domestically and internationally, with emphasis on ML professionals and informal value transfer systems
- Recent developments in ML in B.C., with the focal point being the so-called “Vancouver Model”
- A discussion and analysis of what makes Canada and B.C. particularly vulnerable to ML
- A discussion and analysis of the effects money laundering have on the legitimate economy
- A critical analysis of the predominant narratives on ML as documented in the literature.

The sources for this review include:

- Scholarly research (peer-reviewed articles and books)
- Reports (government, international multilateral governmental organizations, non-governmental organizations, think tanks)
- True crime non-fiction books and magazine articles (journalistic accounts)
- Internet web sites, and
- News media articles.

The temporal scope for most of the literature documented in this review is 1990 to early 2020. As much as possible, this literature review relies on Canadian sources. The focus of this report is on the disbursement and laundering of the proceeds of profit-oriented crimes and does not cover terrorist financing (except as it intersects with the laundering of profit-oriented crimes).

2.1. Scope, Limitations, and Caveats

A literature review is a summary of what has been written and published on a particular subject; it is meant to give the reader a complete understanding of the issue and how it has been interpreted through the extant literature. It is assumed that the author has assimilated all (or the majority of) previous, seminal works pertaining to the field under study.

A literature review should enumerate, describe, summarize, objectively assess, clarify, and critically analyze the existing works on a subject. To this end, a literature review is descriptive, in that its goal is to summarize the literature, but also analytical in that it can dissect and critique the sources and substance of the material covered. Ostensibly, a literature review should describe, analyze, and critique the “state” of the literature on a topic, including a discussion of any voids. In short, the purpose of a literature review is to “convey to the reader what knowledge and ideas have been established on a topic, and what their strengths and weaknesses are.”¹⁰

A literature review surveys scholarly articles, books, and other sources relevant to a particular area of research and will cover both theoretical works as well as the empirical literature. Most scholarly literature reviews attempt to maintain a high level of quality and precision by ensuring only the most reliable and rigorous sources are included, which means the sources should be published and peer-reviewed. However, other sources such as unpublished documents or reports (the grey literature) as well as the news media and non-fiction books may be included, especially to fill any voids in the scholarly literature. Regardless of the source, a literature review must ensure all sources are subject to a critical analysis. This is especially true of government, law enforcement, or private industry reports or press releases, which may be biased or deliberately vague, as well as the news media.

When determining what material was to be included, emphasized, and critically analyzed, this review has attempted to be as impartial and unbiased as possible; it also seeks to avoid applying any pre-conceived observations, analysis, and conclusions concerning the nature, causes, or effects of money laundering in B.C. and generally. This review is not meant to be an endorsement of any particular source, description, or perspective, but an overall reflection of the literature, which includes determining when a consensus may have formed with respect to a particular question or issue area. Every attempt has been made to ensure sufficient and reliable sources are cited to substantiate a particular point or argument the author makes in this review.

While this literature review documents many police and court cases, all the suspects are considered innocent unless they have been deemed otherwise by a court of law. In describing police and court cases – especially those in which there is insufficient information on its final outcome – an effort has been made to emphasize that the purported crime(s) are alleged.

Given the inherently secretive nature of the subject areas addressed in this review (organized crime, underground economies, and money laundering), as well as the lack of sufficient details or erroneous information on the public record (especially regarding accusations concerning money laundering in B.C.), there may be factual errors contained in this document. In other words, because this review relied exclusively on public sources, the accuracy and completeness of its findings are not guaranteed.

Among other sources, this review relies on the news media for descriptive case study information on money laundering in Canada and B.C. This dependence is due to the widespread coverage and timely reporting of pertinent issues, events, and developments by the news media collectively. The reader is exhorted, however, to critically analyze journalistic accounts of organized crime and money laundering. The news media has been disparaged for its superficial, simplistic, saturated, and sensationalized coverage of crime issues, not to mention a proclivity for ethnic and racial stereotyping. Lyman and

¹⁰ Taylor, D. (2019). *The Literature Review: A Few Tips On Conducting It*. Internet web site. Toronto: University of Toronto

Potter accuse the news media of providing “very little substantive knowledge or analysis of organized crime” because it fails to cover “the complexity of organized crime and paints a simplistic picture of an entity that is at odds with the elegant complexities of the real illicit market and the organizational dynamics of real organized crime groups.” The news media has also been chastised for relying too heavily on information provided by police and other government agencies and for reporting on this information uncritically. As a result, the social reality of organized crime created by journalistic accounts “closely reflects the state’s view of organized crime.”¹¹

This literature review represents the best attempt of the author to reflect what the literature says about the nature and effects of money laundering in conceptual and empirical terms. The author has applied his expertise and experience as a researcher in the fields of organized crime, financial crimes, and money laundering to compile this review. This expertise and experience are documented in Appendix 1.

¹¹ Lyman, M.D., & Potter, G.W. (2014). *Organized Crime* (6th Ed.). Boston: Pearson, 57-59

3. Conceptual Overview

While there are no reliable estimates of the amount of revenue produced by illegal activities in Canada, there is little doubt that narcotics trafficking and other organized criminal conspiracies generate billions of dollars annually. “Cash is the universally accepted mode of payment in the underground economy and, as a result, criminal entrepreneurs – in particular, drug traffickers – accumulate cumbersome amounts of currency, often in small denominations. A daunting task that confronts profitable criminal entrepreneurs is how to spend, invest, or transfer large amounts of cash, without attracting suspicion.”¹²

As Peter German writes in his 2019 *Dirty Money* report, “Canada’s problem with money laundering is simply a mirror of its problem with organized crime. Virtually all organized crime is profit driven and therefore gives rise to money, generally cash, which must then be returned to the legitimate financial system in order to be used to buy additional product or taken as profit.”¹³

To benefit from drug trafficking and other profit-oriented illegal activity, criminal offenders may engage in a series of financial transactions designed to convert cash into a less suspicious asset, disguise the true origins and criminal ownership of illicit proceeds, while creating the perception of a legitimate source. Such financial transactions are commonly referred to as money laundering.¹⁴

ML is an operational tactic employed by cash-intensive criminal entrepreneurs and groups to maximize their ability to use and enjoy the fruits of their illegal activity without attracting suspicion and/or government enforcement. Unlike the original predicate offence that produced the revenues to be laundered, such as drug trafficking or fraud, money laundering is not a part of a criminal organization’s “revenue centre.” Instead, it should be viewed as part of its “cost centre,” employed to support its revenue stream. Indeed, two of the world’s largest and most sophisticated transnational criminal groups during the 1980s and 1990s – the Colombian Medellin and Cali cartels – operated a specialized money laundering division, alongside other important operational line functions, such as production, finance, transportation, storage, communication, enforcement, corruption of public officials, and surveillance.¹⁵

Within the criminal milieu, ML has taken on a life of its own and has become an integral component in the operations of some organized crime groups, in part because of increased efforts by governments, law enforcement agencies, private sector firms and professionals to identify, report, and interdict the proceeds of crime.¹⁶

¹² Schneider, S. (2004). *Money laundering in Canada: An analysis of RCMP cases*. Toronto: Nathanson Centre for the Study of Organized Crime and Corruption, 11

¹³ German, P. (2019). *Dirty money, part II. turning the tide: An independent review of money laundering in B.C. real estate, luxury vehicle sales & horse racing*. Vancouver: Peter German and Associates, 27-28

¹⁴ Royal Canadian Mounted Police. (1991) *RCMP National Drug Intelligence Estimate 1991*. Ottawa: RCMP, 48

¹⁵ President’s Commission on Organized Crime. (1984). *Organized Crime and Cocaine Trafficking. Record of Hearing IV, November 27–29, 1984*. Washington, DC: U.S. Government Printing Office, 562; Shannon, E. (1991). New king of coke. *Time* (July 1), 29–33; United States Drug Enforcement Administration. (2001). *Drug Trafficking in the United States*. September. Washington: DEA

¹⁶ Schneider, 2004, 12

3.1. Definitions

Money laundering can be broadly defined as the process by which one converts or transfers cash or other assets generated from profit-oriented crimes in order to conceal their illegal origins. The Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) succinctly defines ML as “the process used to disguise the source of money or assets derived from criminal activity.”¹⁷

According to German, ML refers to the process by which money obtained through illegal activity is introduced to legitimate financial intermediaries, “where the source of funds is then obscured by means of more than one further transaction, in the end creating an appearance of legitimacy ... The money being laundered need not be cash, although cash continues to be the most prevalent mode of payment in the world of drug trafficking, as well as for numerous other criminal activities, including extortion, prostitution, and counterfeit products.”¹⁸

In Canada, the legal definition of money laundering is set out in Section 462.31 (1) of the Criminal Code of Canada:

462.31 (1) Every one commits an offence who uses, transfers the possession of, sends or delivers to any person or place, transports, transmits, alters, disposes of or otherwise deals with, in any manner and by any means, any property or any proceeds of any property with intent to conceal or convert that property or those proceeds, knowing or believing that, or being reckless as to whether, all or a part of that property or of those proceeds was obtained or derived directly or indirectly as a result of

- a) the commission in Canada of a designated offence; or
- b) an act or omission anywhere that, if it had occurred in Canada, would have constituted a designated offence.

A designated offence is defined in section 462.3 of the *Criminal Code* as an offence that may be prosecuted as an indictable offence under Canadian legislation, unless is it expressly excluded by regulation.

3.2. Objectives of Money Laundering

According to Schneider, “A comprehensive money laundering operation satisfies three essential objectives: (1) it *converts* the bulk cash proceeds of crime to another, less suspicious form, (2) it *conceals* the criminal origins and ownership of the funds and/or assets, and (3) it *creates* a legitimate explanation or source for the funds and/or assets.” To realize the greatest benefit from ML, criminally-derived cash should not simply be converted to other, less suspicious assets; the illicit financing of the assets must also be hidden. The third objective, while less frequently satisfied in most ML operations, is no less important than the former two: the effectiveness of a laundering scheme will ultimately be judged by how convincingly it creates a legitimate front or “alibi” for illegally-acquired cash and assets.¹⁹ In short,

¹⁷ Financial Transactions and Reports Analysis Centre. (2019). *What is money laundering?* Internet Web page

¹⁸ German, 2018, 41

¹⁹ Schneider, 2004, 11; German, 2018, 43

“money is not truly laundered unless it is made to appear sufficiently legitimate that it can be used openly...”²⁰

3.3. Phases in the Money Laundering Process

In order to satisfy the aforementioned objectives, a comprehensive ML process entails five phases: (i) placement, (ii) layering, (iii) justification (iv) integration, and (v) extraction/repatriation.

The initial *placement* stage is where the proceeds of crime physically enter the legitimate economy, satisfying the first objective of the laundering process. The Expert Panel on Money Laundering in B.C. Real Estate describes placement as

... the process of moving money earned from crime into the legitimate financial system. Depending on the crime, that money may be in the form of currency, because those paying money for drugs, illegal gambling, the sex trade or other services from criminals want to have no paper trail linking the money to the crime. Other crimes, such as fraud, may involve transfers directly between bank accounts or funds that are not in cash form.²¹

In other words, when being placed in the legitimate economy the proceeds of crime can take one of two forms, broadly speaking: cash or non-cash alternatives (monetary instruments, wire transfers, or an electronic account credit).

There are many ways to introduce the cash proceeds of crime into the legitimate economy. Deposits in banks and other deposit-taking institutions are the most common way. Illicit cash is also regularly placed in money service business (such as currency exchange companies) or by using cash to purchase assets (cars, jewellery, real estate, etc.). To avoid suspicion or reporting requirements, specific techniques may be used to obscure the illicit nature of the funds, such as structuring, which involves making many small cash deposits that fall under the reporting threshold of \$10,000. If this process uses several individuals to deposit relatively small amounts of money at several deposit institutions, it is referred to as “smurfing.” Another common technique used at the placement phase is to claim the cash proceeds of crime are the revenue from a legitimate business.²²

In an analysis of suspicious transaction reports (STR) filed by Canadian private sector entities to FINTRAC, Simser found that “cash was the currency of choice and smurfing was the main structuring technique used to avoid large cash transaction reports.”²³

Cash may also be smuggled “out of a country, sometimes as commercial cargo, for placement abroad, oftentimes but not always in a country which shrouds its financial institutions with secrecy.”²⁴

²⁰ Naylor, R.T. (2002). *Wages of Crime. Black Markets, Illegal Finance, and the Underworld Economy*. Ithaca: Cornell University Press, 137

²¹ Expert Panel on Money Laundering in BC Real Estate (Maureen Maloney, Tsur Somerville, Brigitte Unger). (2019). *Combating money laundering in BC real estate*. Vancouver: Expert Panel on Money Laundering in BC Real Estate, 17

²² Schneider, 2004, 45

²³ Simser, J. (2013). Money laundering: Emerging threats and trends. *Journal of Money Laundering Control*, 16(1), 41-54 @ 42

²⁴ German, 2018, 42

German argues that the placement stage “has traditionally been the most vulnerable stage for money launderers because cash is a bulky commodity in large amounts.”²⁵ It is at this stage that the offender is most susceptible to suspicion and detection and where the funds can most easily be traced to criminal sources.²⁶ According to Schneider, “Once the funds are placed within the legitimate economy and converted from their original cash form, the opportunities for ML are increased exponentially: the funds can be transferred among, and hidden within dozens of financial intermediaries and commercial investments, domestically and internationally.”²⁷ For German, “the antithesis of placement is to hoard cash, which tends to be a temporary solution.”²⁸

Once the funds have been placed in the legitimate economy, a process of *layering* can take place. Layering can be defined as an attempt to hide the true source and ownership of illegally-acquired cash and other assets and to obfuscate any paper trail that may lead back to a predicate criminal offence. This is done so primarily by circulating the illicit funds through various economic sectors, companies, professionals, and commercial or financial transactions to obscure any paper trail that can be traced to the criminal source. The Expert Panel on Money Laundering in B.C. Real Estate describes layering as:

... the process of taking money that has been placed into the financial system and further distancing it from any connection with the underlying crime. This is carried out using a series of transactions that disguise beneficial ownership and look increasingly legitimate. Defining commonly used layering patterns is difficult. All of the complexity of the international financial system can be used in innovative ways to structure a series of transactions that can be difficult or impossible to trace back in practice. Layering techniques include the use of:

- cross-border transactions, especially in and out of jurisdictions that are tax havens, have strict banking secrecy or are jurisdictions in which it is difficult to gather evidence;
- trusts and corporations to disguise beneficial ownership;
- false import and export invoices to effectively move money across borders;
- borrowing in one jurisdiction for repayment in another; and
- nominees or straw-owners who make it look like beneficial ownership has changed when in fact there has been no change.²⁹

For German layering can entail:

... wiring money overseas and between offshore jurisdictions; using offshore trusts, or ‘brass plate’ banks; (banks with little bricks and mortar presence) using front or shell companies and other ‘pass-through’ investments; making private investments or acquiring companies near bankruptcy; trade-based laundering or transfer pricing; purchasing real estate; or purchasing bank drafts, money orders or travellers’ cheques. ... In addition,

²⁵ German, 2018, 42

²⁶ Simser, 2013, 43

²⁷ Schneider, 2004, 12

²⁸ German, 2018, 42

²⁹ Expert Panel on Money Laundering in BC Real Estate, 2019, 19

intermediaries, including lawyers, wittingly or not, may be used as conduits for many of the foregoing schemes.³⁰

The third phase is *justification*, which refers to steps taken to create the perception that the source of funds is legitimate and, as such, that transactions undertaken with those funds are “justified.”³¹ Common justification techniques used in an ML process are depositing cash into a bank account under the guise of revenue from a legitimate business, using nominees to claim ownership of illegally-derived funds or assets, having nominees or shell companies loan money (the proceeds of crime) to the offender, selling real property financed with the proceeds of crime, and even claiming the winnings at casinos (gambled with the proceeds of crime) as legitimate revenue.

The fourth phase is called *integration*. According to the United Nations Office on Drugs and Crime, “having been placed initially as cash and layered through a number of financial operations, the criminal proceeds are fully integrated into the financial system and can be used for any purpose.”³² The RCMP emphasizes that to truly satisfy the laundering process, the “proceeds of crime have to be legitimized and integrated into the official economy.”³³ While integration is a distinct goal of ML, it is mostly accomplished through the layering phase; that is, the more legitimate commercial and financial transactions conducted with the proceeds of crime, the more they are integrated into the legitimate economy.

The Expert Panel on Money Laundering in BC Real Estate calls the final phases in the process the “Integration/Extraction” phase which “makes laundered money available to fund expenditures or activities without giving rise to questions about the source of the funds.”³⁴ According to German, the intent of the integration/extraction phase is to reintegrate illicit money into the legitimate economy.

Once back in the country, the proceeds can be used to purchase consumer goods, real estate, high end investments, luxury cars and boats, or any number of other items. In addition, ongoing criminal enterprises require working capital. Therefore, some laundered money must be reinvested in the illegal business to purchase additional stock, pay bribes, pay lawyers and accountants, provide personal security, and to support those members of an organization who are arrested.³⁵

The *extraction* of the laundered funds can, in fact, be seen as a wholly separate and distinct (fifth and final) phase as its purpose is to get the laundered funds back into the hands of the offenders so they can either reap the benefits of their labour or to reinvest the funds into other criminal pursuits. As German writes, once the laundering cycle is complete, “the criminal typically uses most of the proceeds to continue the enterprise, generally by purchasing more product. Other uses include the purchase of

³⁰ German, 2018, 42

³¹ van Koningsveld, T.J. (2013). Money Laundering – ‘You don’t see it, until you understand it’: Rethinking the stages of the money laundering process to make enforcement more effective, pp. 435-451 in B. Unger and D. van der Linde (Eds.), *Research handbook on money laundering*. Cheltenham, UK; Northampton, MA: Edward Elgar, 449.

³² United Nations. Office on Drugs and Crime. *The Money Laundering Cycle*. Internet web page.

³³ Royal Canadian Mounted Police. (1994). *RCMP National Drug Intelligence Estimate 1994*. Ottawa: RCMP: p. 28.

³⁴ Expert Panel on Money Laundering in B.C. Real Estate, 2019, 18

³⁵ German, 2018, 42

personal assets, for infrastructure building, or as cash on hand.”³⁶ Extracting the funds for criminal or personal use is distinct from the integration phase, which is really about assimilating the proceeds of crime and the layering transactions within the legitimate economy. Schneider calls the final phase of the laundering process the *repatriation* stage; that is “*repatriating* the laundered funds into the hands of the criminal entrepreneur, ideally with a legitimate explanation as to their source, so that they can be used without attracting suspicion.”³⁷

In sum, based on a synthesis of the literature, a comprehensive money laundering process would entail five phases: (i) placement, (ii) layering, (iii) justification (iv) integration, and (v) extraction/repatriation.

There is no universal agreement on the number of phases or the specific substance of any one phase in a consummate ML process. What is necessary in satisfying the over-arching goal of ML is a comprehensive process that encompasses all these functions. Figure 1 below provides a variation of the ML process from the Organisation for Economic Co-operation and Development, which divides the integration phase into two parts: justification (creating an apparent legal origin for the criminal proceeds) and investment (extracting or repatriating the criminal proceeds for personal benefit).

Figure 1: Four Stage Money Laundering Process



Source: Organisation for Economic Co-operation and Development. (2009). *Money laundering awareness handbook for tax examiners and tax auditors*. Paris: OECD.

3.4. Critiques of Money Laundering Definitions and Conceptual Models

The dominant conceptual model of ML has not been without its detractors. One critique is that it assumes all money laundering takes place through legitimate commercial and financial transactions

³⁶ German, 2018, 43

³⁷ Schneider, 2004, 12

(reflected in the emphasis on *placing* and *integrating* the proceeds of crime in the legitimate economy). In other words, the conceptual model ignores laundering methods that occur within the informal (underground and criminal) economy.

Another critique is that the conceptual model of the money process is presented as sequential phases, when in fact the phases are not always realized that way. While each phase may be conceptually distinct, it is not always clear cut when one phase ends and another begins. In fact, certain phases may overlap with one another when undertaking a particular transaction or ML method. For example, conducting multiple wire transfers may simultaneously contribute to layering (through the use of many obfuscating transactions), integration (by embedding the laundering within the legitimate financial services sector), justification (framing wire transfers as a loan or revenue from a legitimate enterprise) and extraction/repatriation (if the wire transfer is used to deliver funds back to the criminal offender). Furthermore, a latter phase in the process may take place concurrently with an earlier phase. While *justification* is presented as the fourth phase in the process, it could be realized during the initial placement stage when the cash proceeds of crime is deposited into a bank account under the guise of revenue from a legitimate source (hence the deposit is “justified”).

Instead of conceiving the ML process as sequential stages, it should be seen as constituting multiple and unique “functions,” each of which may occur at various times during a ML operation and which may overlap with one another.

Criminologist Vincenzo Ruggiero also critiques the demarcation of money laundering into the aforementioned phases, arguing this conceptualization does not cover the crimes perpetrated by legal corporations, whose profits generated from unethical or illegal behaviour are already embedded in the legitimate economy.³⁸ Similarly, Sterling argues that the major phases fall short in applications where laundering does not involve a cash placement, such as fraud where the illicit funds may be placed in the account of the offender through a wire transfer or electronic deposit made directly by the victim.³⁹ The traditional conceptual model also has “limited application to the multitude of street criminals living hand to mouth,” forced to spend their revenue on immediate expenses, as well as those criminal offenders “who make no attempt to move the funds out of black market economies.”⁴⁰

Given Sterling’s last point, a distinction should be made between the simple “disbursement” of the proceeds of crime into the legitimate economy and a complex money laundering process. The former involves little effort to satisfy the ML objectives and petty criminals with relatively small amounts of revenue are less likely to use complex multi-functional ML methods. At the same time, many offenders spend an excess of their revenue for personal reasons (including frivolous purchases but also to satisfy their own drug addictions).⁴¹ At the other end of the ML

³⁸ Ruggiero, V. (2017). *Dirty money: On financial delinquency*. Oxford: Oxford University Press.

³⁹ While conceptually the placement phase tends to focus on the cash, if the proceeds of criminal activity are generated in the form of non-cash assets or transactions, such as a cheque, a wire transfer, or an account credit these are still considered ways that illegal funds are “placed” for laundering purposes.

⁴⁰ Sterling, S. (2015). Identifying money laundering. *Journal of Money Laundering Control*, 18(3), 266-292 @ 283.

⁴¹ As Jimmy Buffet writes in his song, *A pirate looks at 40*, “I’ve done a bit of smuggling, I’ve run my share of grass. I made enough money to buy Miami, but I pissed it away so fast. Never meant to last, never meant to last.”

spectrum, according to the Expert Panel on Money Laundering through Real Estate in B.C., are “those at the top of criminal organizations” that

... have the resources to manage investment portfolios and undertake a stream of transactions covering all phases of money laundering. But managing a large number of placement, layering and justification transactions involving significant flows over long periods of time is a major undertaking requiring specialized knowledge and skills. A group of witting or unwitting professionals is needed. Money laundering is a business opportunity, and there are examples of money laundering businesses that provide these services. Sophisticated money laundering cannot take place without enablers, whether witting or unwitting.⁴²

This divergence in the scope and sophistication of ML is reflected in the RCMP’s *1994 National Drug Intelligence Report*. On the one hand, the report acknowledges that in Canada:

... money laundering operations often involved the disposal of illicit proceeds through simple techniques. Many small or mid-level traffickers do not have the expertise or contacts to engage in sophisticated financial transactions. Some simply open a great number of bank accounts or conceal cash in numerous safety deposit boxes. Others try to distance their proceeds from any drug trafficking by using friends or relatives to purchase real estate or to register vehicles.⁴³

On the other hand, the report acknowledges, “Canadian drug trafficking organizations engage in complex ML operations to better conceal proceeds of crime.”

Traditionally drug traffickers were depositing large sums in banks as an initial step in the laundering process. They have moved away from such practices and are now using other types of financial institutions to initiate money laundering operations. For example, traffickers operating in Canada make extensive use of currency exchange businesses to launder drug money. Remittance corporations operating through networks of agents and branch offices are also being used in Canada to secure the transfer of illicit funds.”⁴⁴

In the same report, the RCMP infers that the “increasingly sophisticated nature of money laundering is also reflected in its demonstrated ability to adapt to a changing legal environment.” According to the RCMP, Canadian legislative initiatives to combat money laundering have led drug traffickers to revise their operations, including the development of new techniques and the use of different laundering channels.⁴⁵

Schneider also acknowledges the range in the complexity and sophistication with which illicit funds are laundered based on his survey of RCMP proceeds of crime cases.

In many of the cases examined for this study, the expenditure of illegally-derived revenues was so lackadaisical and unimaginative that the money laundering objectives and processes laid out above were barely satisfied. In other cases, millions of dollars of criminal funds

⁴² Expert Panel on Money Laundering in B.C. Real Estate, 2019, 20

⁴³ Royal Canadian Mounted Police. *RCMP National Drug Intelligence Estimate 1994*. Ottawa: RCMP, 1994, 29

⁴⁴ Royal Canadian Mounted Police, 1994, 29

⁴⁵ Royal Canadian Mounted Police, 1994, 28-29

were proficiently cleansed through elaborate operations that involved numerous economic sectors, dozens of professionals, a myriad of illusory guises and techniques, and hundreds, if not thousands, of obfuscating transactions.⁴⁶

In his 2019 report on dirty money in B.C., German writes that in Greater Vancouver, there are examples of both rudimentary and sophisticated laundering schemes “and most variations in between.”⁴⁷

In its 2015 report entitled *Assessment of Inherent Risks in Money Laundering and Terrorist Financing in Canada*, Finance Canada identifies four criteria that can help assess the extent to which the disbursement of dirty money constitutes ML and the relative threat posed by a particular ML operation:

- 1) Sophistication: the extent to which the threat actors have the knowledge, skills, and expertise to launder criminal proceeds and avoid detection by authorities.
- 2) Capability: the extent to which the threat actors have the resources and network to launder criminal proceeds (e.g., access to facilitators, links to organized crime).
- 3) Scope: the extent to which threat actors are using financial institutions, [non-financial business and professions] and other sectors to launder criminal proceeds.
- 4) Proceeds of Crime: the magnitude of the estimated dollar value of the proceeds of crime being generated annually from the profit-oriented crime.⁴⁸

In short, “one should not be overly pre-occupied with the term ‘money laundering.’ For both analytical and law enforcement purposes, attention should be paid to how the proceeds of crime are disposed of by the criminal element – with particular emphasis on how it enters and circulates within the legitimate economy – regardless of whether these transactions or the process as a whole satisfy the definition of money laundering.”⁴⁹

4. Predicate Offences: Sources of the Proceeds of Crime Laundered in Canada and B.C.

4.1. Canada

In Canada, the prosecution of the criminal offence of ML requires proof that the money or assets in question are the proceeds of a specific predicate offence (e.g., drug trafficking, theft, fraud, extortion, etc.). “The money may be transferred to different persons and converted to and from different types of assets and remain subject to the provision, provided it can be linked back to the predicate offence. A crime that takes place in another country is a valid predicate offence provided that, had it taken place in Canada, it would have been an indictable offence.”⁵⁰

In its 2020 annual report on international money laundering, the U.S. Bureau of International Narcotics and Law Enforcement Affairs says that ML in Canada “involves the proceeds of illegal drug trafficking, fraud, corruption, counterfeiting and piracy, and tobacco smuggling and trafficking, among others.

⁴⁶ Schneider, 2004, 12

⁴⁷ German, 2019, 27-28

⁴⁸ Finance Canada, 2015, 19

⁴⁹ Schneider, 2004, 12

⁵⁰ Expert Panel on Money Laundering in B.C. Real Estate, 2019, 11

Foreign-generated proceeds of crime are laundered in Canada, and professional, third-party ML is a key concern. Transnational organized crime groups and professional money launderers are key threat actors.”⁵¹

In its 2015 money laundering threat assessment report, Finance Canada identifies “21 criminal activities in Canada that are most associated with generating proceeds of crime that may be laundered.” The breakdown of these criminal activities, and the ML threat category for each, is presented in Table 1.

Table 1: The Money Laundering Threat Ratings of Different Predicate Offences

Very High Threat Rating	
Capital Markets Fraud	Mass Marketing Fraud
Commercial (Trade) Fraud	Mortgage Fraud
Corruption and Bribery	Third-Party Money Laundering
Counterfeiting and Piracy	Tobacco Smuggling and Trafficking
Illicit Drug Trafficking	
High Threat Rating	
Currency Counterfeiting	Illegal Gambling
Human Smuggling	Payment Card Fraud
Human Trafficking	Pollution Crime
Identity Theft and Fraud	Robbery and Theft
Medium Threat Rating	
Firearms Smuggling and Trafficking	Loan Sharking
Extortion	Tax Evasion/Tax Fraud
Low Threat Rating	
Wildlife Crime	

Source: Finance Canada. (2015). *Assessment of inherent risks in money laundering and terrorist financing in Canada*. Ottawa: Department of Finance Canada, 19.

Finance Canada’s descriptions of those predicate criminal activities that are considered a “Very High” threat for ML are summarized below.

ML Threat from Capital Markets Fraud – “Capital markets fraud is a rich source of proceeds of crime ... Most of the large-scale securities frauds in Canada have been perpetrated by criminalized professionals, who have (or purport to have) professional credentials and financial expertise ... Alongside the sophisticated fraudulent schemes, there are sophisticated ML schemes designed to integrate and legitimize the fraud-related proceeds into the financial system. ML schemes in this context would involve a range of sectors and methods, including shell or front companies, electronic funds transfers (EFTs), structuring and/or smurfing deposits and nominees.”

ML Threat from Commercial (Trade) Fraud – The transnational organized crime groups (OCGs) and the terrorists that generate the most illicit proceeds from commercial fraud “are very sophisticated and capable, with the knowledge, expertise and international relationships to manipulate multiple trade chains and trade financing vehicles, often operating under the cover of front and/or legitimate

⁵¹ Bureau of International Narcotics and Law Enforcement Affairs, (2020), *2020 INCSR–Volume II: Money Laundering and Financial Crimes*. Washington, DC: Department of State, 76

companies. The sophistication and capability in terms of conducting the commercial fraud also extends to laundering its proceeds.”

ML Threat from Corruption and Bribery – “The ML threat from corruption and bribery is rated very high principally due to the size of the public procurement sector and the opportunities that this presents to illegally obtain high-value contracts. In addition to corrupt activities carried out domestically, some Canadian companies have also been implicated in the paying of bribes to foreign officials to advance their company’s business interests. OCGs that have the ability to infiltrate the public procurement process have the sophistication and capability to launder large amounts of illicit funds, using a variety of ML sectors and methods, including banks, money services businesses (MSBs), high-end goods, investments and front companies.”

ML Threat from Counterfeiting and Piracy – “Given the sophistication and capability needed for counterfeiting operations, actors involved in these operations appear to be highly sophisticated and capable in terms of laundering the proceeds from counterfeit goods. Having the sophistication and capability to transfer funds in a clandestine way domestically and internationally would appear to be fundamental to the sustainability of the operations given the large numbers of individuals that expect payment throughout the supply chain.”

ML Threat from Illicit Drug Trafficking – “The illicit drug market is the largest criminal market in Canada, with cannabis, cocaine, amphetamine-type stimulants and heroin comprising a significant share of this market. Although numerous threat actors engage in drug trafficking, transnational OCGs are the most threatening and are the most powerful actor in this market. Transnational OCGs exhibit a very high level of sophistication, capability and scope in their ML activities. They are often connected to other OCGs, and multiple organized networks at both the domestic and international levels, to launder drug-related proceeds. OCGs also have access to professional money launderers and facilitators (such as money mules and nominees), and often have control over a number of companies (front and/or legitimate) as part of their ML operations. OCGs use a large number of ML methods, including the use of multiple sectors, commingling of illicit funds within legitimate businesses, domestic and foreign front and shell companies, bulk cash smuggling, trade-based money laundering, virtual currencies and prepaid cards.”

ML Threat from Mass Marketing Fraud (MMF) – “MMF is very prevalent in Canada and the scams associated with MMF have been growing in frequency and sophistication over time ... The majority of MMF connected to Canada is carried out by OCGs, which use a range of ML methods and sectors, including smurfing, structuring, the use of nominees and money mules, shell companies, MSBs, the informal banking system and front companies.”

ML Threat from Mortgage Fraud – “OCGs conduct the vast majority of mortgage fraud in Canada. To carry out this crime, OCGs are believed to rely on the assistance of witting or unwitting professionals in the real estate sector, including agents, brokers, appraisers and lawyers. OCGs frequently use straw buyers to orchestrate the mortgage fraud. OCGs conducting mortgage fraud schemes are, for the most part, suspected to be highly sophisticated and capable in terms of the associated ML activity. Professional money launderers have been used to launder mortgage fraud-related proceeds. It is suspected that criminally inclined real estate professionals, notably real estate lawyers, are used to facilitate money laundering. OCGs involved in mortgage fraud appear to launder funds through banks, MSBs, legitimate businesses and trust accounts.”

ML Threat from Tobacco Smuggling and Trafficking – “The OCGs involved in the illicit tobacco trade are some of the most sophisticated and threatening in Canada. These OCGs have the sophistication and capability to use a variety of sectors and methods (e.g., commingling, structuring, smurfing and refining) to launder the large amount of cash proceeds that are generated from illicit tobacco smuggling and trafficking. In addition to the proceeds of crime generated from the reserve-manufactured illicit tobacco trade, proceeds of crime are generated from counterfeit cigarettes imported from overseas (primarily from China); cigarettes produced legally in Canada, the United States or abroad, and sold tax-free; and “fine cut” tobacco imported illegally, mostly by Canadian-based manufacturers.”⁵²

4.2. British Columbia

In his 2018 *Dirty Money* report, German argues that “the most lucrative crimes in Vancouver are related to illegal drug sales,” implying that drug trafficking may pose the greatest ML threat in that province. While dated, a September 1989 article in *Equity Magazine* quotes law enforcement officials who maintain that Vancouver serves as a relay station for roughly half of more than \$2 billion in illegal drug profits funnelled offshore and brought back into Canada disguised as legitimate investments. “This estimate likely pales by comparison to the dollar value of illegal drug sales today,” German writes.⁵³

The homegrown (illegal) marijuana industry in B.C. has been a substantial source of illicit funds laundered in the province and beyond. While marijuana has been legal in Canada since October 2018, the country has been a producer and exporter since at least the late 1980s. The grow operations, most of which are indoors, produce a potent form of marijuana that has become known internationally as “BC Bud” or “Canadian Gold.” By the end of the 1990s, there were thousands of marijuana grow operations in the country and the number has only increased in the new millennium. The underground industry is highly lucrative; with a “comparatively small initial investment, the grower can potentially reap profits of well over \$1,000,000 within the first year for an operation capable of producing a few hundred plants of high-quality marijuana about every three months,” an RCMP report says.⁵⁴

In a January 2004 Vancouver Sun article, a local police official recounts how ten years ago it was unusual for police to find \$100,000 cash in a drug raid. Now it is routine, said Vancouver RCMP Inspector George Pemberton of the Integrated Proceeds of Crime section. “Last year, Vancouver police did a search of a marijuana broker's house and seized \$1 million cash,” he explained. “We're making a lot more cash seizures.” The biggest problem large amounts of cash create for drug dealers is how to get rid of it without being detected, Pemberton added.⁵⁵

One way to launder the cash of marijuana trafficking, while bolstering marijuana production, is to use the money to finance the purchase of homes which can then be used for as sites for grow operations. A 2009 Vancouver Sun article describes how the “underground business of growing marijuana has become so lucrative that brand new homes are being customized and purchased for the sole purpose of housing marijuana operations. In some instances, houses worth hundreds of thousands of dollars are being

⁵² Finance Canada, 2015, 20-23

⁵³ *Equity*. (Sept. 1989). Big time crime, as cited in German, 2018, 37

⁵⁴ Royal Canadian Mounted Police. (2002). *Marihuana Cultivation in Canada: Evolution and Current Trends*. Ottawa: RCMP; *Ottawa Citizen*, Apr. 29, 2003, Illegal raising of marijuana an ‘epidemic’

⁵⁵ Vancouver Sun, January 19, 2004, Cash a big problem for drug dealers

purchased with “garbage bags full of cash,” Surrey RCMP Constable Tim Shields is quoted as saying. “These homes are purchased with the proceeds of crime, with cash made from illegal activities and these houses are used for more illegal activities,” Shields said. “The purchase and sale of the home is then also used to launder money.”⁵⁶

4.3. International Sources of the Proceeds of Crime in Canada

Most of the sources of the criminal proceeds laundered in Canada are from domestic criminal activity. However, the country is also susceptible to illicit funds generated externally and brought into the country. This “international placement” is accomplished through various means: the smuggling of cash or high-value items (gold, gems, jewellery), electronic fund transfers, monetary instruments, informal value transfer systems and trade-based money laundering. Of growing concern is the use of underground MSBs and professional money launderers that use their resources and expertise to undertake both legitimate international transfer and laundering transactions (e.g., electronic fund transfers) and underground, illegal trans-border methods (like IVTS and cash smuggling).

In its 2019 report examining ML and financial crimes worldwide, the U.S. Bureau of International Narcotics and Law Enforcement Affairs designated Canada as a “major money laundering country.” The inglorious designation was assigned, in part, because “foreign-generated proceeds of crime are laundered in Canada, and professional, third-party money laundering is a key concern ... Transnational organized crime groups represent the most threatening and sophisticated actors in the market, given their access to professional money launderers and facilitators and their use of various money laundering methods to shield their illicit activity from detection by authorities.”⁵⁷

Meyer Lansky – the financial brains behind the American Cosa Nostra for decades – recognized Canada’s potential as a money laundering conduit as early as the 1940s, when he began to funnel revenue from American mafia families through Canada before it was repatriated to the U.S. In a 1974 interview, Inspector Thomas Venner, at the time the head of the RCMP’s intelligence unit in Toronto, asserted that “Laundered crime money is invested in every kind of business in Metro” which includes “investments in hotels, restaurants, small shopping plazas, and increasingly, in recent months, real estate.”⁵⁸ In February 1970, Lansky allegedly convened a meeting in Acapulco inviting senior mafia members from Quebec and Ontario to discuss laundering money through Canada. The idea was to send cash generated from criminal activities in the U.S. to Canadian underworld figures who would then invest in U.S. businesses as a means to return the money south of the border.⁵⁹

⁵⁶ Vancouver Sun, October 9, 2002, Brand-new homes used to grow pot, RCMP claim: Upscale surrey houses are then sold to 'launder' cash

⁵⁷ Bureau of International Narcotics and Law Enforcement Affairs. (2019). *2019 INCSR–Volume II: Money Laundering and Financial Crimes*. Washington, DC: Department of State, 73.

⁵⁸ Toronto Star, April 4 1974, Crime cash in metro, police say

⁵⁹ Wismer, C. (1980). *Sweethearts*. Toronto: James Lorimer & Company; Hamilton Spectator, June 6, 1970, The family that works together can sometimes kill together? Hamilton Spectator, November 20, 1974, Hamilton men at crime summit: Shulman; Moon, P. (1971). The mob. Part V: A foothold in Ontario. *Canadian Magazine*. February 17, 9

By the 1980s, the greatest external ML threat facing Canada came from international drug trafficking and transnational criminal groups. According to a 1991 RCMP report,

...foreign-based criminal organizations take advantage of Canada's sophisticated financial system to both move and conceal proceeds of crime. Intelligence further indicates that some foreign-based trafficking groups are using Canadian bank accounts to secure multi-million-dollar payments for drug deals in which Canada was not involved as a source or consuming country. In such cases, Canada is used, not as a laundering centre, but a clearinghouse where organizations settle business debts."⁶⁰

During the 1980s and 1990s, Colombian cocaine cartels had emerged as the largest and most profitable transnational criminal organizations in the world. Both the Medellin and Cali cartels operated extensive and sophisticated ML operations and both had cells in Canada to handle the laundering of drug profits through Canadian banks. Canadian-based cell managers also founded legitimate cash-based businesses that could be used as a front to deposit the proceeds of cocaine sales.⁶¹

In its 1993 *Drug Intelligence Estimate*, the RCMP states that one of the trends in the internationalization of laundering operations is "the multiplication of links between major drug trafficking organizations worldwide. As they settle debts and secure drug payment transfers, trafficking organizations in Canada and abroad intersect in an attempt to launder proceeds of crime efficiently and to obscure paper trails."⁶²

By the end of the 1990s, police uncovered a massive money laundering operation orchestrated by Russian organized crime that attempted to launder millions of dollars in criminal proceeds generated in Russia and Eastern Europe through a public company that issued shares through the Toronto Stock Exchange.⁶³

Now that a visa requirement for Mexican nationals has been lifted by the Canadian government, drug cartels from that country will attempt to expand their presence in Canada, according to a Canada Border Services Agency (CBSA) report obtained by Postmedia News in 2016. "The visa lift will make travel to Canada easier in order to establish or strengthen existing cartel smuggling chains," Postmedia News quotes the CBSA report as saying. The report also warns of large quantities of illicit drug money transiting through Vancouver from Mexican drug cartels.⁶⁴

Case Study

In May 2017, CBC News reported that a "powerful Russian crime syndicate that's accused of laundering hundreds of millions of dollars around the world" appears to have laundered \$2 million through nearly 30 Canadian bank accounts.

⁶⁰ Royal Canadian Mounted Police (1991). *RCMP National Drug Intelligence Estimate 1991*. Ottawa: RCMP, 48

⁶¹ Florez, C., & Boyce, B. (1990). Laundering drug money. *FBI Law Enforcement Bulletin*, 59(April), 22-25; Schneider, S. (2009). *Iced: The story of organized Crime in Canada*. Mississauga: HarperCollins Canada, 512-514

⁶² Royal Canadian Mounted Police. (1993) *RCMP National Drug Intelligence Estimate 1993*. Ottawa: RCMP, 52

⁶³ Schneider, 2004, 56-57; Globe and Mail, June 8, 1999, Mob boss picked Canadian exchanges for YBM scam.

⁶⁴ German, 2018, 37; Vancouver Sun, December 8, 2016, Mexican cartels to expand reach in Canada with visa changes; Vancouver Sun, December 11, 2014, Notorious Mexican cartels have set up shop in Vancouver

A handful of companies registered here also sent \$17.6 million out of Canada to foreign accounts associated with the crime syndicate, according to the documents that chronicle hundreds of wire transfers in and out of Canada between 2008 and 2013.

The CBC News investigation began after receiving thousands of pages of documents amassed by U.K.-based businessman Bill Browder, widely regarded as once the most successful foreign investor in Russia with his hedge fund, Hermitage Capital.

Browder says that in 2007, his companies were stolen by an organized crime syndicate led by Russian crime boss Dmitry Klyuev.

The stolen companies were then used to commit one of the most infamous financial crimes in recent Russian history that saw a fraudulent \$227-million Russian tax refund shared by co-conspirators who quickly moved the money out of Russia and into other jurisdictions.

The documents indicate the money came to Canada via two routes.

More than \$300,000 moved here almost directly from Russia through two bank accounts in Cyprus controlled by Dmitry Klyuev. Four Canadian companies received the money.

Far more money – about \$1.6 million – came to Canada through a more complicated route via the now-closed Lithuanian bank, UKIO.

Two dozen Canadian individuals and companies received the funds in accounts at major Canadian banks, including Royal Bank, CIBC and TD Bank.

Some of the companies in Canada suspected of laundering the funds include an Alberta-based construction firm, with a business address in Moscow, which received \$144,371 from Cyprus in 2011. The company received the funds just two months after it was created. It shut down two years later. The Calgary lawyer who registered the company says he did so on instructions from a client in Cyprus, whom he would not name.

Cyprus was the source of funds wire transferred to other firms established in Canada, including a tire company in Kitchener Ontario, which received \$87,883 in 2011.

While most of the wire transfers were sent to companies, a handful went to individuals. In 2008, one woman received \$345,595 in nine separate wire transfers from Lithuania.

The sum is the most sent to any individual or company listed in the documents. Mortgage records show she bought a \$410,000 home in Montreal the same year, although she lived in Kazakhstan.

The woman and her daughter were also listed as directors of a numbered company in Quebec that received \$188,930 from Lithuania in 2010.⁶⁵

⁶⁵ CBC News, May 10, 2017, Millions in suspected Russian crime proceeds flowed through Canadian banks, companies

In his 2019 *Dirty Money* German says that “Large amounts of unsourced foreign money flow through Vancouver daily. Most of it is presumably legitimate in origin. Much of it may not be. Due to Vancouver’s orientation to the burgeoning markets of Asia, China figures prominently in this flow of money. But money also flows north from Mexico and Latin America, and west from Europe and the Middle East. Allied to much of the dirty money and that which seeks to avoid currency controls are OC groups.”⁶⁶

4.4. Capital Flight and Other Sources of Illicit Funds from Mainland China

In the above quote, German alludes to one of the largest pools of “unsourced (informal) foreign money flow” into Canada: capital flight from the People’s Republic of China (PRC)

Capital flight from the PRC is primarily due to the imposition of restrictions on the amount of currency that can leave that country; the country now sets a limit of (US)\$50,000 on the amount of cash a Chinese citizen can transfer or remove from China. Moreover, while the Chinese government previously tolerated individuals removing larger amounts of currency by pooling the quotas for relatives, friends, and even employees, the law now prohibits anyone from transferring money on behalf of someone else. Since the beginning of 2017, Chinese banks are required to report any cash transaction of Renminbi (RMB) being converted into foreign currency, if the amount equals or exceeds RMB 50,000 (US\$ 10,000).⁶⁷

As German notes, “The intent of the new currency policies is to slow the rapid outflow of cash from Mainland China. However, many workarounds still exist, oftentimes involving Chinese companies doing business overseas. The methods used to evade currency controls are many and oftentimes imaginative. Some involve an ancient form of banking, which has adapted to the present.”⁶⁸ A report estimated that between 2002 and 2011 alone, illicit financial outflows from China was (US)\$1.08 trillion, most of which were evasion schemes perpetrated by wealthy members of Chinese society.⁶⁹ David Mulroney, Canada’s former ambassador to China, is quoted as saying, “China is the No. 1 exporter of hot money in the world.”⁷⁰

Cash and other assets illegally exported from China have found their way into the B.C. economy where they seem to have been overwhelmingly invested in real estate. For assorted reasons, paying for expensive goods, including real estate, with large amounts of cash is common in Mainland China.⁷¹

German asserts that “Much of the foreign capital that enters the B.C. real estate market is of legitimate origin” and “includes capital invested by foreign corporations and enterprising individuals who see an opportunity to profit from a rapidly appreciating market, and by others who wish to insure against political risk at home.” Nevertheless, he acknowledges, “... foreign capital that has an unlawful origin is likely the dominant form of recent money laundering in B.C.

⁶⁶ German, 2019, 40

⁶⁷ German, 2018, 35

⁶⁸ German, 2018, 36

⁶⁹ Gascoigne, C. (2014). *China’s illicit outflows were US\$1.08 trillion from 2002-2011*, Washington, DC: Global Financial Integrity; Kar, D. and Freitas, S. (2012). *Illicit Financial Flows from China and The Role of Trade Misinvoicing*, Washington, DC.: Global Financial Integrity

⁷⁰ O’Brien, F. (2015). *Property sales spike sparks money laundering fears suspicions rising that “hot money” is being washed through Vancouver real estate*, Internet web site

⁷¹ New York Times, April 30, 2013, Chinese way of doing business: In cash we trust

real estate. The primary motivation for this activity is to preserve and enjoy the ill-gotten wealth, which involves placing it out of reach of the authorities in the country of origin.”

Under this model, corrupt officials often move their spouses and, or children to Canada along with their wealth to secure residency and, ultimately citizenship. Indeed, there are provincial government programs throughout Canada that facilitate immigration through investment incentives. Spouses and children may be used to hold title to the properties acquired in B.C., making it difficult to identify the beneficial owner.

The properties acquired by these actors are typically houses and condos at the high-end of the market. These officials and their family members may use the property as a principal residence or a holiday home. In many cases, the properties sit empty.

In the case of Mainland Chinese nationals, evading state currency controls is often necessary to make real estate purchases abroad. Individuals with no criminal links use the same underground banking channels as organized crime groups and corrupt officials, bolstering their businesses and providing legitimately sourced funds to layer with dirty money. This co-mingling of funds, the proceeds of crime with money that has evaded capital controls but is otherwise clean, has contributed to what the late Richard Wozny referred to as the “large, mysterious untaxed pool of international capital” being placed in B.C.’s housing stock.⁷²

Court filings and newspapers offer multiple examples in which the proceeds of crimes committed abroad have found their way into B.C. real estate. These cases illustrate how the alleged perpetrators of several large-scale bank frauds in China absconded to B.C. and acquired properties with funds, believed to be stolen, often registering the properties in the names of family members, thereby serving to obscure their involvement.⁷³

In his article entitled “Money laundering and illicit flows from China – the real estate problem,” Naheem argues that most of China’s illicit money flows are from corruption and financial crime offences rather than drug or organized criminal gangs.⁷⁴ Cheng agrees, writing that China has a high rate of corruption and financial crimes, in the form of bank fraud, securities fraud, insider trading, and Ponzi schemes, the proceeds of which are disbursed and laundered domestically but also internationally.⁷⁵

One estimate is that nearly 18,000 corrupt Chinese politicians have removed close to an estimated (US) \$123 billion in money garnered through corruption from China to other foreign countries.⁷⁶ Citing PRC

⁷² Wozny, R. (2017) *Low incomes and high house prices in Metro Vancouver* as cited in Vancouver Sun, Feb. 6, 2018, Obituary: Real-estate analyst Richard Wozny fought for justice on housing and taxes

⁷³ German, 2019, 62-63

⁷⁴ Naheem, M. A. (2017a). Money laundering and illicit flows from China – the real estate problem. *Journal of Money Laundering Control*, 20(1), 15-26 @ 17

⁷⁵ Cheng, H. (2016). *Financial crime in China: Developments, sanctions, and the systemic spread of corruption*. New York: Palgrave Macmillan

⁷⁶ Durden, T. (2014). *China’s “secret money laundering” story goes mainstream: is promptly censored*. Internet web page. Retrieved from: <https://www.zerohedge.com>

figures German writes that “in 2015 there were at least 26 fugitives in Canada who had stolen funds from state-owned institutions, several of whom were living in B.C.”⁷⁷

Naheem also emphasizes that real estate is a targeted sector for criminals seeking to launder funds both in China and abroad. “One of the patterns that has been noted for real estate purchases, where illicit funds or money laundering is involved, is that the purchaser will often use large cash transactions as part of the purchase.”⁷⁸ O’Brien states in his article on property investment by Chinese immigrants in Vancouver, that Canada is popular with corrupt Chinese officials because it is a desirable location in which to house family members and educate children while gaining more attractive rental income returns.⁷⁹ Ownership of the real property will often be placed in the name of a family member or associate of the corrupt government official who is the source of the funds.⁸⁰

Regardless of the source of funds and its investment destination in Canada, billions of dollars in illicit cash have allegedly been smuggled into the country from China by Chinese nationals, with much of this reportedly entering the country through Vancouver. In August 2015, Postmedia News reported on a CBSA document indicating that the Vancouver International Airport (YVR) is the primary port of entry for millions of dollars in cash smuggled into North America. The CBSA report provides statistics on the frequency and scope of seizures by Canadian border officials of “undeclared assets” of \$10,000 or more. Among the findings contained in the CBSA document and reported by Postmedia News:

- From June 2012 to December 2014, \$56.3 million in undeclared assets were seized by CBSA agents from all travellers; of this total, approximately \$10 million was seized at YVR (the majority of which were seized from Chinese citizens).
- CBSA seized \$17.4 million from Chinese nationals at all Canadian ports of entry (this was four times more than undeclared assets seized from U.S. citizens coming into Canada).
- Since 2011, YVR accounts for 30 percent of all undeclared asset seizures across all official ports of entry (land, sea, and airports) in Canada.
- YVR accounted for more than half the undeclared assets seized from Chinese citizens across all Canadian ports of entry.
- Undeclared assets seized from Chinese citizens at YVR are double the amount seized from Chinese nationals at all U.S. airports.

The CBSA document acknowledges that the amount of undeclared assets detected is only a fraction of the cash and financial instruments smuggled into Canada from China. According to the Postmedia News article, “Experts said Vancouver appears to be targeted by Chinese citizens because Canada’s forgiving border laws allow seized cash to be returned for minimal fines. As well, permissive property investment rules and loose reporting compliance in the real estate industry make Vancouver homes the perfect vehicle for illicit offshore investment.”⁸¹

⁷⁷ German, 2019, 63

⁷⁸ Naheem, M. A. (2017a). Money laundering and illicit flows from China – the real estate problem. *Journal of Money Laundering Control*, 20(1), 15-26 @ 17

⁷⁹ O’Brien, 2015

⁸⁰ Financial Action Task Force. (2013b). *Politically exposed persons. FATF Guidance*. Paris: FATF

⁸¹ Postmedia News, Aug. 4, 2015, Vancouver airport acts as major entry port for millions in cash smuggled by mostly Chinese citizens

Also in 2015, the Province newspaper cited a money laundering audit commissioned by FINTRAC and carried out by accounting firm Grant Thornton. According to the newspaper, the study confirmed that “the purchase of Canadian real estate assets with offshore money and/or by offshore persons” was a “significant risk factor” for ML. The Grant Thornton report also alluded to the “high number of cash transactions” in financing real estate in Vancouver.⁸²

Finally, recent evidence of money laundering in B.C.’s real estate market indicates it is tied to fentanyl trafficking with much of the drug being manufactured by and shipped from China-based factories to Canada and other countries.⁸³ As detailed later in this report, cash generated from fentanyl trafficking was lent out as private mortgages, which contributed significantly to the amount of criminal proceeds invested in real estate in the Lower Mainland.⁸⁴

In sum, according to Arthur Cockfield of Queen’s University, “A glimpse into Chinese money laundering helps us understand the struggles within an authoritarian state awash with cash, and how it dumps some of its problems on countries like Canada. Chinese money laundering paints a troublesome picture of a country where citizens often do not trust their government and where organized crime benefits from cleaning up illicit proceeds from a drug that is killing thousands of Canadians.”⁸⁵

A more detailed description of how the proceeds of Chinese capital flight, government corruption, and illegal drug trafficking find their way into the B.C. economy is provided later in this literature review.

5. Criminal Organizations that Pose a High Money Laundering Threat to B.C.

Widespread and sophisticated money laundering is often associated with transnational organized crime. British Columbia is home to two of the country’s most significant TOC threats: English-Canadian one-percenter motorcycle gangs and Chinese organized crime. Mexican drug cartels have also recently emerged as a significant drug trafficking and ML threat in B.C.

5.1. Chinese Organized Crime

Canada’s rich ties with China date back over a century. Vancouver’s Chinatown has been and continues to be a fixture in the city. Chinese workers began migrating to Canada soon after Confederation. They performed much of the heavy work that allowed Canada to fulfill its constitutional obligation to British Columbia by creating a steel thread across the Prairies

⁸² The Province, August 24, 2015, Federal audit takes aim at money-laundering real estate transactions in Vancouver area; Embassy News, Aug. 12, 2015, High risk of dirty money in Canadian real estate, says report ordered by financial intel agency

⁸³ Luedi, J. (2020). China is fuelling Canada's fentanyl crisis. Internet web page, Truenorthfareast.com; O’Connor, S. (2018). *Fentanyl Flows from China: An Update since 2017. Issue Brief*. Washington, DC: Economic and Security Review Commission.

⁸⁴ Globe and Mail, March 22, 2019, B.C. civil forfeiture office suing target of massive money-laundering investigation; Vancouver Sun, Jan. 12, 2018, Chinese developer took \$2.68-million cash loan in Richmond coffee shop, legal filings allege; Vancouver Sun, September 30, 2017, Whale gamblers ID’ed by BCLC also placed big bets on B.C. real estate

⁸⁵ Globe and Mail, Feb, 8, 2019, Opinion: The high price of Chinese money laundering in Canada

and through the Rocky Mountains. Other Chinese migrants dug trenches beside Canadian and Allied soldiers in the mucky, bloody European theatre during World War I.⁸⁶

The reality of the early Chinese experience in North America, of course, was quite the opposite of the dreadfully stereotypical and racist portrayals put forth by newspapers, politicians, and “Anti-Asiatic” groups. Like many racialized ghettos, the various Chinatowns of Canada and the United States have wrongly been held out as symbols of the insular and clannish Chinese community. Instead, they were formed as the first and subsequent waves of Chinese settlers banded together for protection in the face of racial hatred, ethnicity-based herding, violence, and legislative disenfranchisement.⁸⁷

Chinese organized crime (COC) is not new to Canada. The first Chinatown in Victoria became home to illegal gambling halls, brothels, and opium dens, while Chinese merchants in British Columbia were behind some of the largest opium smuggling and trafficking rings in the early part of the twentieth century. The original Canadian branches of Chinese triad societies operated as political and benevolent associations and were not criminal or secret in nature. However, as the twentieth century wore on, some of these societies in Vancouver, Toronto, and Montreal were used by powerful members for such illegal endeavours as extortion, prostitution, gambling, opium trafficking, and people smuggling. Beginning in the early 1970s, Southeast Asian heroin began to flood North America and before long Chinese drug trafficking syndicates had surpassed the French Corsicans and the Italian Mafia as Canada’s biggest heroin suppliers. By the mid-1970s, a rash of extortions within Toronto’s Chinese community exposed the presence of Canada’s first modern triad. The Kung Lok was established solely for criminal purposes and initially blended a traditional triad structure with a network approach to carrying out crimes. At the end of the 1980s, police in Canada began investigating a network of professional criminals from Mainland China originally made up of former Red Guard soldiers and Officers, referred to by police as *Dai Huen Jai* (Big Circle Boys). They were blamed for a series of violent robberies, home invasions, and pickpocketing in Vancouver and Toronto, although within ten years, this loose association of offenders would lay the foundation for one of the largest criminal networks in the country.⁸⁸

COC constitutes one of the most widespread, diverse, and sophisticated criminal conspiracies in Canada today. Their geographic strongholds are the Lower Mainland of B.C. and the Greater Toronto Area, but their reach extends into almost every province. Contemporary COC in Canada is characterized by its networked structure that includes triad members, youth gangs, professional criminals, (former) government officials, and semi-legitimate businesspeople. The sources of revenue for COC in Canada include extortion, gambling, prostitution, illegal immigration schemes, and the drug trade. In addition to importing heroin and fentanyl from Southeast Asia, COC is one of the biggest producer of synthetic drugs (crystal meth and ecstasy) in Canada, which is trafficked domestically and exported to the United States and other countries. In Canada, COC is also active in more sophisticated and technological-based crimes, including the counterfeiting of credit cards, digital technology, and consumer products. They are also involved in the lucrative contraband

⁸⁶ German, 2018, 37

⁸⁷ Schneider, S. (2018). *Canadian organized crime*. Toronto: Canadian Scholars Press, 22

⁸⁸ Schneider, 2018, 205

tobacco market where they illegally import counterfeit cigarettes and are also suspected of operating unregulated cigarette manufacturing plants on First Nations reserves in Quebec and Ontario.⁸⁹

COC in Canada is connected to a global network and has strong linkages to Hong Kong and China, which is a source country for counterfeit goods, contraband tobacco, and chemicals used to produce synthetic drugs, as well as migrants who are smuggled into this country. German writes that Chinese criminal networks are international in scope and are

... characterized by global linkages; the fluid and ever-changing nature of its operations; its sophistication, including a high degree of coordination, planning, technical knowledge, and business acumen; the global mobility of its members; and the financial strength of organizations which can cross with ease between legal and illegal markets. The infiltration of organized crime in overseas diasporas allows these syndicates to rapidly move into new markets and exploit vulnerabilities ... Chinese organized crime groups function like multi-national corporations, using the transport and business networks of southern China, Hong Kong and Macau to trade commodities such as methamphetamines, precursor chemicals, counterfeit goods and illegal migrants for cash and commodities.⁹⁰

In short, according to Chin, contemporary COC embodies, “the emergence of a new generation of Chinese who are involved in transnational crimes such as drug trafficking, human smuggling, sex trafficking, and money laundering” that are carried out by a “vertically structured, fluid, and opportunistic” network of Chinese nationals “very often with the help of, or in cooperation with, non-Chinese local people in the host countries.”⁹¹

British Columbia has been more heavily influenced by China compared to the rest of Canada; the province as a whole has benefited immensely economically and culturally by Chinese immigrants that have arrived and settled in the province for more than 100 years. But China is now Canada’s biggest supplier of fentanyl, which has had a devastating impact on the country and B.C. particularly. China is also a major supplier of precursor chemicals for synthetic drugs that are manufactured in B.C., such as ecstasy and methamphetamine.

Given the sheer amount of money generated by their criminal activities, combined with their experience with Hong Kong’s financial markets, COC has become adept at money laundering. Triad members and associates have significant investments in legitimate businesses in Hong Kong and in other locales where they have become situated. The triads tend to favour those business ventures that generate a large cash base as fronts for their criminal activity. Fish markets, restaurants, seafood distribution warehouses, nightclubs, billiard halls, gambling dens, film and video distribution outlets, interior decorating venues, sports and gym clubs, and martial arts and massage parlours are typical of their preferred business ventures. The income earned by criminal societies is invested in legitimate businesses and real estate in North America, Australia, and Europe.⁹² In June 2000, police in France arrested 27 people suspected of

⁸⁹ Schneider, 2018, 205-206

⁹⁰ German, 2018, 33

⁹¹ Chin, K.-L. (2014). Chinese organized crime, in L. Paoli (Ed.), *The Oxford Handbook of Organized Crime*. (pp. 219–34). Oxford, New York: Oxford University Press

⁹² Schneider, 2018, 257

running a ML operation, through two foreign exchange offices in Paris that were connected with Chinese criminal organizations. The value of the funds laundered by this group was estimated at 1.7 billion francs (US \$247 million). Some of the laundered money was connected with the illegal smuggling of Chinese immigrants into France.⁹³

Money laundering by Chinese criminal networks is facilitated by the banking and economic hub of Hong Kong as well as casino and (underground) money transfer businesses in Macau. Hong Kong is one of the most secretive offshore financial jurisdictions and is a global hub for shell companies used by Asian and other transnational crime groups.⁹⁴

In B.C., billions of dollars in revenue generated from COC-sponsored drug trafficking, fraud, loan sharking, extortion and illegal gaming have been laundered through Vancouver's housing market, casinos, businesses, and other assets and services. Professional Chinese money launderers and their MSBs based in the Lower Mainland have served as key intermediaries, directing the unlawful movement of cash from China, as well as the proceeds of drug trafficking from a variety of other criminal organizations for investment and laundering purposes locally and internationally.⁹⁵

A Global News story from November 2018 cites a "secret police study" alleging that Chinese crime networks were implicated in the purchase of luxury properties in Greater Vancouver.

The study of more than 1,200 luxury real estate purchases in B.C.'s Lower Mainland in 2016 found that more than 10 per cent were tied to buyers with criminal records. And 95 per cent of those transactions were believed by police intelligence to be linked to Chinese crime networks.

At the centre of the money laundering ring is a powerful China-based gang called the Big Circle Boys. Its top level "kingpins" are the international drug traffickers who are profiting most from Canada's deadly fentanyl crisis.

The crime network, according to police intelligence sources, is a fluid coalition of hundreds of wealthy criminals in Metro Vancouver, including gangsters, industrialists, financial fugitives and corrupt officials from China.

They are involved in drug import and production schemes, casino money laundering, real estate money laundering, prostitution, and financial crimes, the sources said.

The common link among them is an underground banking scheme in which Chinese VIP gamblers and gangster associates secretly transfer money between China and Richmond, B.C., in order to fund fentanyl imports and trafficking in Canada.⁹⁶

⁹³ Agence France Presse, June 30, 2000, French take down Chinese money launderers, arrest 27

⁹⁴ Tax Justice Network, December 30, 2013, Hong Kong: China's premier secrecy jurisdiction, Internet web site

⁹⁵ German, 2018; Langdale, J. (2017). *Impact of Chinese transnational crime on Australia: Intelligence perspectives*. Lecture to the New South Wales Police Force's intelligence conference, Nov. 2, 2017; Financial Action Task Force. (2018). *Professional Money Laundering*, July. Paris: FATF. Financial Action Task Force, 2018

⁹⁶ Global News, Nov. 26, 2018, Secret police study finds crime networks could have laundered over \$1B through Vancouver homes in 2016

5.2. English-Canadian One-percenter Motorcycle Gangs

The origins of motorcycle gangs can be traced to California immediately following World War II. Initially formed for camaraderie, excitement, and hell-raising, some of the earliest of the “one-percenter”⁹⁷ motorcycle clubs – in particular, the Hells Angels and the Outlaws – gradually moved into criminal pursuits. Daniel Wolf argues outlaw biker clubs are in many ways “pre-adapted as vehicles of organized crime.”

Para-military organization lies at the core of their tight knit secret society. It is a society capable of enforcing internal discipline; including an iron-clad code of silence which ensures that information about club operations never goes beyond the walls of the clubhouse. Uncompromising commitments of brotherhood generate cohesion, mutual dependence, and a sense of a shared common fate. The lengthy socialization required to become a legitimate “biker” and the two years of proving oneself as a striker in order to become a member make the infiltration of a club by the police a virtual impossibility. The political structure of the club, the antiestablishment attitudes and high-risk nature of the individuals involved, and the marginal social environment in which they operate have the potential to produce a clubhouse of crime.⁹⁸

The criminal one-percenter biker gang is epitomized by the Hells Angels Motorcycle Club (HAMC), one of the largest and most powerful criminal groups in Canada. In fact, the HAMC was one of the first groups in Canada to be deemed a criminal organization by a Canadian court of law.⁹⁹ The HAMC is unprecedented in the annals of Canadian organized crime in that they are the first truly national criminal organization; they have a presence in every province in Canada, either through their own chapters or through affiliated motorcycle clubs (pejoratively referred to as “puppet clubs” in that they are completely subservient to the HAMC).¹⁰⁰

While a significant source of income for the HAMC in Canada comes from drug trafficking (cocaine, marijuana, hashish, and synthetic drugs), they are also involved in the sex trade, bookmaking, gambling, fraud, extortion, and vehicle theft. To enable their criminal activities, the HAMC rely on corruption and internal conspiracies at marine ports of entry and within labour unions and government agencies. OMGs also readily use violence, especially in protecting or expanding their criminal rackets. The HAMC proliferated in Canada because of its drive for a monopoly in the one-percenter biker world, in the criminal underworld of various provinces, and in certain illicit markets—in particular, the cocaine market.¹⁰¹

The first HAMC “Charter” in B.C. was granted on July 23, 1983. Consistent with its expansion strategy in most provinces, the HAMC “patched over” existing one-percenter motorcycle clubs. After a year of

⁹⁷ The term “one-percenter” originally referred to that one percent of the population that has abandoned the norms and values of mainstream Western society and instead sought adventure and excitement (preferably on a Harley-Davidson motorcycle).

⁹⁸ Wolf, D.R. (1991). *The Rebels: A Brotherhood of Outlaw Bikers*. Toronto: University of Toronto Press, 265-266.

⁹⁹ CBC News, July 1, 2005, Hells Angels Motorcycle Club a criminal entity: judge

¹⁰⁰ Schneider, 2018, 264

¹⁰¹ Schneider, 2018, 265

meetings with senior officers of the Quebec Hells Angels, the Vancouver, White Rock, and Nanaimo chapters of Satan's Angels were patched over. Later that year, a fourth Hells Angels chapter, located in East Vancouver, was formed, and would eventually become the dominant chapter in the province. For Wolf, the instantaneous and simultaneous emergence of four B.C. chapters "was a major international coup for the Hell's Angels MC conglomerate. It virtually locked up the Canadian west coast and made the Hell's Angels' position in British Columbia unassailable."¹⁰²

By the mid-1980s, the HAMC was in control of "all outlaw motorcycle gang activity in British Columbia," a joint RCMP and DEA report concluded. "The Hells Angels West Coast criminal activity includes trafficking in illicit drugs as well as business interests believed to be fronts for illegal activities."¹⁰³

According to their web site, the HAMC currently has 10 chapters in B.C.: Vancouver, White Rock, Nanaimo, East End, Haney, Nomads, Mission City, Kelowna, West Point, and Hardside.¹⁰⁴ Police in British Columbia have said that no motorcycle club in that province can wear a four-piece MC patch without the approval of the Hells Angels. As an RCMP Inspector put it, B.C. "is primarily a Hells Angels province when it comes to outlaw motorcycle gangs."¹⁰⁵

By the mid-1990s, Criminal Intelligence Service Canada (CISC) was calling the B.C. Hells Angels "one of the wealthiest outlaw motorcycle gangs in the world." Intelligence information collected at a Sturgis [South Dakota] world biker run revealed that other chapters were told not to continuously ask for money or loans from B.C. chapters.¹⁰⁶ While there is not a lot of public information on the how they launder their proceeds of crime, there is evidence that individual members and associates have made substantial investments in local businesses, real estate, hotels, entertainment complexes, apartment houses, auto repair shops, and bars (which may or may not be connected to the proceeds of crime). A 1986 report by the RCMP and the DEA counted more than 40 registered companies in British Columbia controlled by or under the influence of Hells Angels members.¹⁰⁷ In 1995, a Vancouver Sun investigative team undertook a search of various directories and corporate records and "found B.C.'s enterprising Angels operate or are connected to a wide variety of legitimate businesses including a major urban grocery store, booking agents for beverage room strippers, a travel agency, a cedar shake and logging company, apartment buildings, motorcycle shops, an Italian restaurant, a trucking company, an excavating company, recreational vehicle parks, a limousine service and a waste removal company."¹⁰⁸

¹⁰² Schneider, 2018, 275

¹⁰³ Royal Canadian Mounted Police and Drug Enforcement Administration. (1986). *Outlaw Motorcycle Gangs and the Drug Trade*. Ottawa: RCMP/DEA, 21

¹⁰⁴ Hells Angels World web site, <https://hells-angels.com/area/british-columbia/>

¹⁰⁵ Vancouver Sun, September 24, 2009, Puppet biker clubs tied to Hells Angels have top cops in B.C. worried; Schneider, 2018, 297-298

¹⁰⁶ Criminal Intelligence Service Canada. (1996). *Annual Report on Organized Crime in Canada, 1996*. Ottawa: CISC, 15

¹⁰⁷ Royal Canadian Mounted Police and Drug Enforcement Administration, 1986, 21

¹⁰⁸ Vancouver Sun, March 14, 1995, Angels of enterprise: Businesses connected to B.C. Hells Angels members include

5.3. Mexican Drug Cartels

As mentioned earlier, beginning in 2016, the Visa requirement for Mexican nationals was lifted by the Canadian government, prompting the CBSA to predict an increase in the operations of Mexican drug cartels in Canada. Of particular concern was an expected increase in the smuggling of cocaine into the country. The CBSA also raised the spectre of Mexican drug wholesalers working in conjunction with domestic buyers in both drug trafficking and money laundering.

“We know that transnational organized crime networks in Canada have criminal business relationships with Mexican cartels,” RCMP Superintendent Cal Chrustie is quoted as saying in a 2016 Vancouver Sun article. “The Canadian organized crime networks also work with the Mexican cartels in laundering/repatriating money from drug deals between the groups. It is usually about illegal profits with the cartels.”¹⁰⁹

In his 2018 *Dirty Money* report German also cites police sources saying that large quantities of illicit drug money transit through Vancouver and are related to Mexican drug cartels, including the Sinaloa.¹¹⁰ As part of an investigation into ML by the Richmond-based Silver International Investments, the RCMP alleged that the underground bankers were laundering millions of dollars a year for various crime syndicates, including an international cocaine trafficker with ties to Mexico.¹¹¹

In his 2018 book *Hunting El Chapo*, Former US DEA agent Andrew Hogan claims the Sinaloa cartel was making almost \$3 million a day from selling cocaine and heroin in major Canadian cities. Hogan – who was part of a task force that spent seven years on the trail of the head of the Sinaloa cartel, Joaquín “El Chapo” Guzmán, before capturing him in 2014 – said the DEA was caught off-guard by the Chapo’s “deep infiltration” of Canada.

“In terms of profit, Chapo was doing more cocaine business in Canada than in the United States,” Hogan writes. “It was a straightforward price-point issue: retail cocaine on the streets of Los Angeles or Chicago sold for \$25,000 per kilo, while in major Canadian cities it sold for upwards of \$35,000 per kilo.”¹¹²

While he was working in an undercover capacity, Hogan was responsible for making cash pick-ups for a representative of the Sinaloa Cartel, named Mercedes. After picking up hundreds of thousands of dollars in cash from Deutsche Bank, it was then “up to Vancouver, Canada, for a pick-up for more than \$800,000. The Canadian dollars had to be quickly converted to US currency before we could send the wire to Mercedes.”¹¹³

Hogan writes that El Chapo assigned a 22-year old lieutenant named Jesus “Hondo” Herrera Esperanzato to oversee the cartel’s ML operations in Canada, which he did from a luxury condo loft in Vancouver. Esperanza’s front was to register as a student at Columbia College but in actuality, his main job was to collect money generated from cocaine trafficking across Canada. Apparently, Hondo “was so amped up about living the narco-junior life” that he disregarded his daily duties, resulting in millions of dollars in

¹⁰⁹ Vancouver Sun, December 8, 2016, Mexican cartels to expand reach in Canada with visa changes

¹¹⁰ German, 2018, 37

¹¹¹ Global News, Jan. 9, 2019, El Chapo’s Sinaloa cartel made nearly \$3M a day in Canada, former DEA agent claims

¹¹² Hogan, A. and Century, D. (2018) *Hunting El Chapo*. New York: Harper Collins, 139-140

¹¹³ Hogan and Century, 2018, 65-66

proceeds from cocaine and heroin sales sitting uncollected in Vancouver, Calgary, Winnipeg, Toronto and Montreal. As a result, El Chapo demanded daily status reports about the cartel's business in Canada. The information was to include how much cocaine was sold and how much money he collected for each city. Hogan cites the following examples of daily reports filed by Hondo: Vancouver, 95 kilos sold, \$560,000 collected; Winnipeg 48 kilos sold, \$275,000 collected, and Toronto, 150 kilos sold, \$2,000,000 collected.¹¹⁴

6. The Nature and Characteristics of Money Laundering

This section summarizes the literature that is concerned with describing and analyzing the characteristics of ML generally and Canada and B.C. specifically. This section is divided as follows:

- common ML methods and techniques (broken down by the five phases of the ML process),
- economic sectors used (banking, real estate, motor vehicles, casinos, etc.),
- professionals (lawyers, accountants) used to facilitate ML, and
- ML in the informal (underground) economy.

In its 2020 report that assesses anti-money laundering measures in different countries, the U.S Bureau of International Narcotics and Law Enforcement Affairs says that the proceeds of crime are laundered in Canada “via several mediums, including bulk cash smuggling, MSBs/currency exchanges, casinos, real estate, wire transfers, offshore corporations, credit cards, foreign accounts, funnel accounts, hawala networks, and the use of virtual currency.”¹¹⁵

A 2008 report by the Paris-based Financial Action Task Force (FATF) on money laundering and its enforcement in Canada says,

The money laundering methods used in Canada have remained relatively consistent in recent years. They consist of: cross-border cash smuggling, money service businesses and currency exchanges; casinos; purchase of real estate; wire transfers; establishment of offshore corporations; credit cards, stored value cards and new payment methods; use of nominees, foreign bank accounts, and professional services (lawyers, accountants, etc.); and reinvestment in illicit drugs. At the placement stage, criminals are using money service businesses or casinos. Electronic funds transfers are being used for layering and at the integration stage, criminal proceeds are used to buy high-value assets in attempts to conceal the origin of the funds. Most recently, there have been signs that criminals are turning to such methods as Internet payments or cross-border movement of gold bullion.¹¹⁶

¹¹⁴ Hogan and Century, 2018, 141-142

¹¹⁵ Bureau of International Narcotics and Law Enforcement Affairs, 2020, 76

¹¹⁶ Financial Action Task Force on Money Laundering. (2008a). *Canada report on the observance of standards and codes: FATF recommendations for anti-money laundering and combating the financing of terrorism*. Washington, D.C.: International Monetary Fund, 4

6.1. Money Laundering Methods and Techniques¹¹⁷

As discussed, ML takes advantage of both legitimate transactions, services, and assets within the legal economy. At the same time, there are certain methods and techniques used that are expressly geared towards laundering the proceeds of crime. This section highlights some of the more common transactions and methods used to launder the proceeds of crime (other transactions, methods and techniques specific to a particular commercial or financial sector are described in later sections).

For the purposes of analysis, the various transactions, methods, and techniques are categorized using the five phases and functions of the ML process. The majority of the ML methods and techniques fall into the layering, integration, and justification functions in that they entail one or more services, transactions, assets, and economic sectors to conceal the true source and ownership of illegally-acquired cash and other assets, obfuscate any paper trail that may lead back to a predicate criminal offence, integrate the transactions and laundered assets within the legitimate economy, and justify the transactions by creating an air of legitimacy.

Case Study

A husband and wife team that smuggled tobacco products into Canada deposited \$115,000 in an account at a Calgary bank (*placement*). A GIC was bought with the funds, which in turn was deposited in an account at another bank. The funds were then applied toward the purchase of a home (*layering, integration*). Six months after the home was bought, it was sold, creating the appearance of legitimate revenue (*justification*). The cheque from their real estate lawyer was cashed at another bank for large denominations of cash as well as bank drafts (*layering, integration*). The bank drafts were then cashed at yet another bank and the large denominations of cash received were smuggled to Hong Kong (*layering, extraction/repatriation*).¹¹⁸

6.1.1. Placement

In 87.3 percent of cases surveyed in Schneider's study of RCMP proceeds of crime investigations, the individual(s) accused of the predicate offence placed the cash proceeds of crime into the legitimate economy. Nominees were involved in placing the proceeds in the legitimate economy in 35.6 percent of the cases. A company and a lawyer were each involved in placing the proceeds of crime 10.1 percent of the cases.¹¹⁹

¹¹⁷ This literature review applies terminology used by FINTRAC and the FATF to describe and categorize common ML "methods" and "techniques." A *method* refers to the particular procedure or series of actions used to carry out money laundering activity and normally involves a number of different techniques. A *technique* is the particular action or way that the money laundering activity is carried out (Financial Transactions and Reports Analysis Centre of Canada. (2009b). *Money laundering typologies and trends in Canadian casinos*. Ottawa: FINTRAC, 8)

¹¹⁸ Schneider, 2004, 87

¹¹⁹ Schneider, 2004, 21

Cash Deposits

Given that banks in Canada are the predominant ML medium in Canada and that bank accounts represent the most frequently used service (by both legitimate and illegitimate customers), it is not surprising that cash deposits into bank accounts are the most frequently used ML transaction. The most rudimentary technique is for the offender to deposit the cash. More advanced techniques such as “structuring” and “smurfing” may be used. Launderers may open accounts at other non-bank entities, such as an MSB or even a casino, which are then exploited for their quasi-banking services. For example, there is evidence that in B.C., the cash proceeds of drug trafficking were deposited into casino patron accounts and then eventually “withdrawn” via a casino-issued cheque.¹²⁰

Structuring and Smurfing

Structuring refers to the act of parcelling a large financial transaction into a series of smaller transactions to avoid scrutiny. Typically, each of the smaller transactions is executed in an amount below the statutory limit of \$10,000 for reporting under the federal *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*. A common method that accompanies structuring is to employ several individuals (or “smurfs”) to make the smaller transactions. Smurfs typically are used to deposit small amounts of cash at banks and other deposit institutions to avoid suspicion associated with large amounts of cash while circumventing large cash reporting requirements.¹²¹

Cash Smuggling

A rudimentary, yet effective means to further the international laundering process is to smuggle cash across borders. Criminal organizations may employ human “mules” to smuggle money out of a country where the drugs are sold to the source country or to a financial haven for laundering purposes. Cash can be smuggled using a variety of methods including body packs, suitcases, backpacks, cars, motor homes, laundry bags, trucks, and planes.¹²³

A 1989 McLean’s article states that as government agencies and private sector firms in Canada beefed up their enforcement and AML regimes respectively, the amount of illicit monies smuggled out of Canada increased. The annual currency seizures at U.S. Customs posts along the Canadian border more than tripled – from \$7.2 million in 1988 to \$22.6 million as of September 30, 1989. Among the so-called currency smuggling hot spots around that time were Vancouver International Airport, Pearson International Airport, and Montreal’s Dorval Airport, according to U.S. Customs.¹²⁴

An article in *The Report on Crime and Profiteering* from 2000 contends that random searches by customs officials at Canadian airports and U.S. land border ports of entry resulted in the seizure of tens of millions of dollars of cash being smuggled into or out of the country. Most of the cash is believed to be either from cocaine and marijuana trafficking; cash from cocaine trafficking in Canada is almost always smuggled out-bound to Colombia, while cash from the sale of “Canadian Gold” marijuana in the U.S. is

¹²⁰ Vancouver Sun, March 13, 2018, Massive BCLC casino cheque payouts were mostly returned funds

¹²¹ The term “smurf” is derived from the image of the comic book characters, which is a large group of many small innocuous individuals. National Post, November 27, 1999, How to launder a million in eight easy steps

¹²³ Kieley, G. *Legislative History of Bill C-22*. Ottawa: Library of Parliament. Parliamentary Research Branch, 2000.

¹²⁴ MacLean’s, October 23, 1989, Hiding the drug money

smuggled into Canada. Some of the cash is also believed to be criminal profits from Eastern Europe. Canada itself is seldom the final destination of these illicit profits, according to the article. Instead, the Canadian financial system is an intermediary between black market revenue produced in Russia and the Ukraine and other foreign financial systems.¹²⁵

In April 2016 the RCMP's proceeds of crime enforcement unit in the Greater Toronto Area began an investigation after approximately \$325,000 in bulk Canadian currency was seized at Pearson International Airport. Peel Regional Police officers at the Airport located a suspicious unclaimed bag on the baggage carousel from a Halifax flight. Upon further examination, the officers discovered several plastic bags containing cash. The bag itself tested positive for drug residue.¹²⁶ In a separate incident on May 21, 2016, the CBSA seized around \$129,000 in undeclared U.S. currency from two Canadian residents trying to enter Canada at the Cornwall port of entry in Ontario. Officers searched their vehicle and discovered a grocery bag with 13 shrink-wrapped bags packed tightly with American currency.¹²⁷

6.1.2. Layering, Integration, Justification

Together, it is the layering, integration and justification phases where most money laundering takes place. While each function is unique in its respective ML purpose, there is considerable overlap among the many transactions and methods conducted to carry out the layering, integration, and justification functions. A series of transactions and ML methods can simultaneously distance the illicit proceeds from their original criminal source (*layering*), in part by embedding the transactions and laundered assets with legitimate commercial and financial sectors (*integration*), while also creating a seemingly legitimate source of the laundered funds and assets (*justification*). For example, one integrated ML scheme that could accomplish all three functions would begin by establishing several shell companies (in financial havens) with nominees serving as directors and executives (layering). Commercial bank accounts are then set up in the names of the companies (layering, integration). Illicit funds are deposited into the bank accounts under the guise of legitimate revenue from the companies (justification) and then transferred between the different corporate accounts, using such pretexts as inter-company loans or the purchase of merchandise or real property by one company from the other (layering, integration, justification).

Below is a description of four ML methods – refining, nominees, loan back, and offshore financial haven countries – that are commonly used to satisfy the layering, integration and justification functions. Other types of transactions and methods used during these phases that are specific to certain economic sectors are described later.

Converting Denominations (Refining)

Refining refers to the conversion of small denomination banknotes to large denomination banknotes. The method is commonly associated with drug trafficking, as drug dealers accumulate a large amount of smaller denomination banknotes (often \$20 bills) through the course of their business. Not only are

¹²⁵ The Report on Crime and Profiteering, May/June, 1997, Record case seizures at airports, borders: RCMP, 1.

¹²⁶ RCMP News Release, April 12, 2016, Halifax man is arrested for possession of the proceeds of crime - \$325,000 in bulk cash

¹²⁷ Government of Canada News Release, June 7, 2016, Large currency seizure at the Cornwall port of entry - Canada News Centre

large quantities of cash in smaller denomination banknotes difficult to transport, they may also raise suspicion as attempts are made to place these funds into the legitimate economy. Money launderers will, therefore, seek to convert (“refine”) small denomination banknotes into \$100 banknotes.¹²⁸

Nominees / Beneficial Ownership

A common ML method is the use of nominees. Of the 149 RCMP proceeds of crime cases Schneider analyzed, 69 (46.3%) involved some attempt by the accused to obscure a direct connection between himself and assets he owned, primarily by registering legal title in the name of another individual, usually a relative, friend, business associate, or lawyer. In most cases, the nominee was unconnected to the illegal activities and had no criminal record. The assets most often placed in the name of nominees were real estate, cars, companies, and bank accounts. Nominees can be used in all phases of the laundering process. As mentioned, they can act as smurfs to structure deposits with the cash proceeds into bank accounts under their names (placement), multiple transfers can take place between the accounts of nominees (layering and integration), and a nominee can lend money (actually the proceeds of crime) to the criminal offender (justification, extraction/repatriation).

In its 2015 E-Pirate investigation into the Richmond-based Silver International Investment Ltd. – alleged to be an underground money services business that was laundering millions of dollars annually – an RCMP inspector expressed his frustration with the use of nominees that hid the beneficial ownership of real property and other assets, “We are finding now, not only one layer of nominees, but two, three and four. And some of those nominees live in China. And they are either related to you, or they don’t even know they are owners. So for many of the properties, we just had to walk away.”¹²⁹

Case Study

A cocaine trafficker in Vancouver used several mediums to launder his drug revenues, including deposit institutions, real estate, and numerous legitimate businesses. Central to his laundering operation was the extensive use of nominees. Although it was clear that the accused had ultimate control over numerous businesses, he was not registered as the official owner of any of them. Instead, ownership was placed in the names of his wife, a niece, his mother, his father-in-law, sisters, brothers-in-law, as well as business associates. During the period of investigation, police discovered that he had signing authority for 30 different bank accounts, although few were registered in his name. The accused appears to have taken particular advantage of his mother and father-in-law, both of whom were unable to read, write, or speak English and were financially dependent on their families. The accused opened bank accounts in their names while maintaining power of attorney and sole signing authority. A 1998 Ford Truck registered to one of his businesses was reportedly “sold” to a Pakistani national in exchange for land in that country. However, police learned that the truck was driven and maintained exclusively by the accused and his wife after the so-called sale. The accused also used the fictitious sale of real property to launder the proceeds of the cocaine sales. His former residence in Vancouver was

¹²⁸ Financial Transactions and Reports Analysis Centre of Canada, 2009b, 9

¹²⁹ Vancouver Sun, January 15, 2018, How B.C. casinos are used to launder millions in drug cash

purportedly sold to his sister-in-law and her husband in 1996 for \$120,000. Despite this sale, police were able to prove that the accused was the beneficial owner of the home.¹³⁰

Loan Back

This method involves making fictitious loans between a criminal entrepreneur and an accomplice/nominee (usually a family member, friend, or business associate). The criminal offender will claim the proceeds of crime as a loan from a nominee, who may be paid a fee for this service. In some cases, the criminal funds are given to the accomplice, who is instructed to deposit the cash and then supply a monetary instrument to the accused in return. The loan-back technique is effective in creating the guise of a legitimate source of funds for the accused, especially when it is difficult to prove the source of funds provided by the alleged lender. Lending money between shell companies is also a common layering technique.

Case Study

One proceeds of crime investigation targeted a tobacco smuggler named Stuart Noble operating in Ontario and Atlantic Canada who purchased a residence in Halifax for \$245,000 with an \$85,000 mortgage. A bank draft for \$160,000 was provided by Noble to his lawyer to cover the balance of the purchase price, taxes, and legal fees. While police established that half of this money came from his smuggling business, Noble claimed the other half was comprised of loans from friends. However, police speculated that one of the laundering methods used by Noble was to give cash to friends and associates, who would then return the funds – as cheques or bank drafts – disguised as loans. The bogus lenders would be provided with an honorarium for their services and the monetary instruments would be deposited into the personal or commercial bank accounts of Noble. In addition to helping with the purchase of their home, a real estate agent was also one of the people who “loaned” money to Noble for the purchase of the house. During a search of his home, police discovered numerous copies of bank drafts and other monetary instruments indicating that over the course of two weeks, Noble received \$75,000 in bank drafts and cheques from friends and associates.¹³¹

Offshore (Financial Haven) Countries

Major international ML cases often share a common feature: the criminal offenders are making use of the opportunities offered by financial haven countries to launder ill-gotten funds. Originally set up to attract offshore funds through low-tax regimes, the so-called financial havens are also popular for money laundering because they ensure strict secrecy and confidentiality for their clients. Financial havens offer an array of facilities and services to the foreign investor unwilling to disclose his or her

¹³⁰ Schneider, 2004, 86

¹³¹ Schneider, 2004, 88

identity, such as the registration of international business corporations (often shell companies) and the use of numbered bank accounts and trust accounts.¹³²

In their 1991 *Drug Intelligence Estimates* report, the RCMP state, “illicit funds are moved abroad to obscure the audit or paper trail and avoid the Canadian criminal justice system.” Cash is channelled to financial havens, wire transfer services are set up and operated by traffickers and launderers, and shell corporations are established in countries renowned for their corporate secrecy laws. Import and export businesses are also used as laundering vehicles to transfer the proceeds of crime to and from Canada, some of which can be claimed as revenue.¹³³

In Deneault and Browne’s 2015 book, *Canada: A new tax haven*, the authors trace Canada’s relationship with Caribbean countries in the last half of the twentieth century. Canada was linked to Caribbean nations long before they became financial havens. In the 1950s, an ex-governor of Canada’s central bank tried to set up a low taxation regime in Jamaica. In the 1960s, the transformation of the Bahamas into a tax haven characterized by strict banking secrecy was shaped by a minister of finance who sat on the Royal Bank of Canada’s board of directors. A Calgary lawyer and influential Conservative Party member drew up the clauses that transformed the Cayman Islands into an opaque offshore jurisdiction. The authors argue that the involvement of Canadian financiers in establishing and maintaining financial havens with strict secrecy laws in the Caribbean has predisposed Canada to become an attractive tax haven to foreign interests. Not only does Canada offer one of the lowest corporate tax rates in the world, but several loopholes encourage companies to relocate to Canada as if it were Barbados or Bermuda.¹³⁴

A 1989 *Vancouver Sun* article quotes former RCMP Assistant Commissioner Rod Stamler who says that international crime groups consider Canada an attractive spot to invest in legitimate businesses. Not only does Canada have an efficient banking system but it has many branches in the Caribbean’s financial haven countries. “You can deposit money in Prince George, B.C. and put it (electronically) into a Grand Cayman account,” says Stamler.¹³⁵

Case Study

In their 2009 report on money laundering through banks, FINTRAC describes a money laundering operation by a Canadian organized crime group that was investing these illicit revenues in various businesses, including investment companies set up in Caribbean countries.

Most of the companies were located in Canada and “were reported to offer financial and investment services, which included the use of trusts, therefore allowing the clients to keep their own identity and that of beneficiaries completely confidential.” Two companies (Company A and Company B) were also established in Caribbean countries with strict financial secrecy laws.

¹³² United Nations Office for Drug Control and Crime Prevention. (1998). *Financial havens, banking secrecy and money-laundering*. New York: United Nations Office for Drug Control and Crime Prevention

¹³³ Royal Canadian Mounted Police. (1991). *RCMP National Drug Intelligence Estimate 1991*. Ottawa: RCMP, 48

¹³⁴ Deneault, A., & Browne, C. (2015). *Canada: A new tax haven. how the country that shaped Caribbean tax havens is becoming one itself*. Vancouver: Talon Books.

¹³⁵ Vancouver Sun, October 13 1989, Canada ‘washes’ billions in drug money

These offshore companies were suspected of being “created for the sole purpose of concealing the criminal origins and ownership of the funds.” Many of the “separately incorporated businesses were found to be located at the same address and their owners or directors were suspected to be nominees, sometimes with no apparent links to the organized crime group.”

Among the many trust accounts (including lawyers’ trust accounts) in Canada, some were controlled by Company B.

Numerous financial transactions were conducted with two offshore companies. Among the suspicious transactions were electronic fund transfers (EFTs) between the many companies that contributed to layering and repatriating funds back to Canada to the criminal group.

“EFTs were ordered by or for the benefit of Company A, located in the Caribbean, and individuals and businesses from Europe, Asia, and the United States. Furthermore, EFTs were ordered by or for the benefit of Company A and investment/securities companies, as well as trust accounts (including lawyers’ trust accounts) located in Canada, some of them held by Company B. Company A also ordered EFTs to the benefit of a lawyer’s trust account held in the United States.”¹³⁶

6.1.3. Justification, Extraction / Repatriation

The final extraction/repatriation phase is all about getting the laundered proceeds back into the hands of the criminal offender responsible for the predicate offences. Ideally, this phase should be preceded or accompanied by the justification stage, which supplies a façade of legitimacy for the laundered funds.

Claiming the Proceeds of Crime as Legitimate Revenue or a Loan

A frequently used method that satisfies both the justification and extraction/repatriation stages is to claim the proceeds as revenue from a legal business. Once this seemingly lawful source of revenue is established, criminal proceeds can be deposited into commercial bank accounts. In some cases, the proceeds of crime will be co-mingled with revenues generated from legal businesses and deposited into bank accounts.¹³⁷ Money can then be withdrawn by the offender. The loan back technique can also be used to satisfy both the justification and extraction/repatriation phases in that it returns money to the hands of the offender with a seemingly legitimate explanation for its source.

Under-Invoicing (Value Tampering)

Under-invoicing can be applied at both the international level, using commercial trade in merchandise, or at the local level, where it can be used with a big-ticket item like real estate or a car. At either level, under-invoicing (or “value tampering”) involves having a criminal offender purchase legal merchandise or property far below its real value. The offender then re-sells the merchandise or property for what it is really worth and reaps a substantial profit. This technique requires the collusion of the seller, including the completion of legal documents that list the price of the merchandise or asset as less for what it was

¹³⁶ Financial Transactions and Reports Analysis Centre of Canada. (2009a). *Money laundering and terrorist financing typologies and trends in Canadian banking*. Ottawa: FINTRAC, 9-11

¹³⁷ Schneider, 2004, 87

actually sold. (Details on the use of under-invoicing through commercial trade is described in Section 6.4.4 – trade-based money laundering).

At the local level, this method can be used to create a legitimate pretence for illicit funds while setting up a transaction that returns the (laundered) funds to the launderer. For example, a criminal offender pays \$1 million for a home with a true value of \$2 million. The difference between the true price and the purchase price is then secretly given to the seller under-the-table in cash. This fraud helps the money launderer conceal the true amount that was spent (the less money official records show a criminal has spent, the easier it is to hide illegally-derived and non-reported revenue). It also benefits the seller in that the lower price means less being paid in sales taxes and commissions. After holding the property for some time – and perhaps injecting \$200,000 in renovations, paid for with illicit cash – the property is then sold for its new real value of \$2.2 million. The launderer is quite willing to pay the taxes on his “windfall” profit because it furthers its legitimate pretensions.

Schneider describes how a street-level drug trafficker in British Columbia purchased a car from a dealership, which issued two receipts: one that low-balled the price of the car (used for official sales and tax purposes) and the other listing the actual cost to the trafficker (which was only known to the parties who negotiated the fraud). The difference in the prices was paid to the dealership under-the-table.¹³⁸

6.2. Economic Sectors Used for Money Laundering

Money laundering objectives and phases are more likely achieved when the legitimate economy is used (compared to the underground economy). This is the case for two reasons. First, the legitimate economy has a vast array of industries, assets, services, transactions and professionals that are conducive to satisfying the inherent goals of ML, while also sustaining the essential phases of the ML process. Second, the very goal of ML – creating a façade of legitimacy for the laundered money – is best achieved through the legitimate economy.

In 2015, Finance Canada published perhaps the most ambitious attempt to identify and rank commercial and financial sectors exposed to ML and terrorist financing (TF). The vulnerabilities are assessed for 27 economic sectors and financial products in Canada. To produce the assessments, experts were asked to estimate the threats and inherent vulnerabilities of sectors and products using five criteria:

- 1) *Inherent Characteristics*: the extent of the sector’s economic significance, complexity of operating structure, integration with other sectors and scope and accessibility of operations.
- 2) *Nature of Products and Services*: the nature and extent of the vulnerable products and services and the volume, velocity and frequency of client transactions associated with these products and services.
- 3) *Nature of the Business Relationships*: the extent of transactional versus ongoing business, direct versus indirect business relationships and exposure to high-risk clients and businesses.
- 4) *Geographic Reach*: the exposure to high-risk jurisdictions and locations of concern.

¹³⁸ Schneider, 2004, 58

5) *Nature of the Delivery Channels*: the extent to which the delivery of products and services can be conducted with anonymity (face-to-face, non-face-to-face, use of third parties) and complexity (e.g., multiple intermediaries with few immediate controls).¹³⁹

As shown in Table Two, of the 27 rated areas, the overall ML/TF vulnerability was rated “very high” for five sectors and products, “high” for 16 sectors and products, “medium” for five sectors and products and “low” for one sector. Of the assessed areas, domestic banks, corporations, MSBs and express trusts are rated the most vulnerable. These sectors and products are deemed very high risk because they are so accessible to money launderers “and are associated with a high volume, velocity and frequency of transactions. Many conduct a significant amount of transactional business with high-risk clients and are exposed to high-risk jurisdictions that have weak AML/ATF regimes and significant ML/TF threats. There are also opportunities in many sectors to undertake transactions with varying degrees of anonymity and to structure transactions in a complex manner.”¹⁴⁰

Table 2: Vulnerability of Canadian Economic Sectors to Money Laundering and Terrorist Financing

Very High Vulnerability Rating	
Corporations ¹⁴¹	National Full-Service MSBs ¹⁴²
Domestic Banks	Small Independent MSBs
Express Trusts	
High Vulnerability Rating	
Brick and Mortar Casinos	Life Insurance Companies
Company Services Providers	Registered Charities
Credit Unions and Caisses Populaires	Open-Loop Prepaid Access
Dealers in Precious Metals and Stones	Real Estate Agents and Developers
Foreign Bank Branches	Securities Dealers
Foreign Bank Subsidiaries	Smaller Retail MSBs
Internet-Based MSBs	Trust and Loan Companies
Legal Professionals	Virtual Currencies
Medium Vulnerability Rating	
Accountants	Provincial Online Casinos
British Columbia Notaries	Wholesale and Corporate MSBs
Independent Life Insurance Agents and Brokers	
Low Vulnerability Rating	
Life Insurance Intermediary Entities and Agencies ¹⁴³	

Source: Finance Canada. (2015). *Assessment of inherent risks in money laundering and terrorist financing in Canada*. Ottawa: Department of Finance Canada, 33.

¹³⁹ Finance Canada, 2015, 16

¹⁴⁰ Finance Canada, 2015, 8, 32

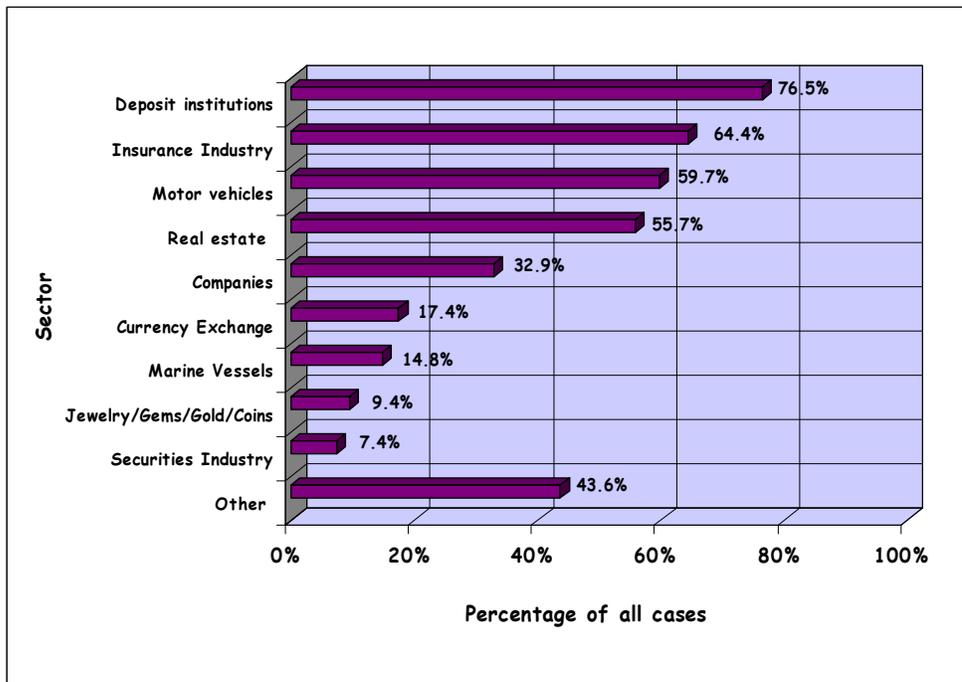
¹⁴¹ The vulnerability relates to the ability of these entities to be used to conceal beneficial ownership, therefore facilitating the disguise and conversion of illicit proceeds.

¹⁴² National full-service MSBs are the largest and most sophisticated MSBs that have a national presence, offering a full range of products and services at the retail and wholesale levels.

¹⁴³ These entities provide administrative support to insurance agents and brokers and allow for the pooling of commissions and access to insurance company products.

In his 2004 report analyzing RCMP proceeds of crime case files, Schneider provides a statistical overview of the frequency with which different industries were implicated in the case files examined. As indicated in the graph below, ML in Canada touches a wide range of commercial and financial businesses. Deposit institutions are the single largest laundering vehicle, having been identified in 114 of the 149 proceeds of crime cases (76.5%). While the insurance sector was implicated in almost 65 percent of all cases, in the vast majority the offender did not explicitly seek out the insurance sector as a laundering vehicle. Instead, because motor vehicles, homes, companies, and marine vessels were purchased with the proceeds of crime, it was necessary to buy insurance for these assets.¹⁴⁴

Figure 2: Frequency with which Industries and Assets were Implicated in RCMP POC Cases



Source: Schneider, S. (2004). *Money laundering in Canada: An analysis of RCMP cases*. Toronto: Nathanson Centre for the Study of Organized Crime and Corruption, 14.

The rest of this section describes and analyzes the commercial and financial sectors of the Canadian economy that are particularly vulnerable to ML. These sectors and assets include the following: deposit institutions, real estate, motor vehicles, casinos, money service businesses, securities, criminally-influenced companies, precious metals and gems, as well as the Internet and other virtual media. For each of the above, the following issues will be addressed:

- how this sector satisfies ML objectives (why it is vulnerable to ML),
- the role this sector plays in different ML phases,
- services, products, assets, instruments, and expertise used, and
- ML techniques specific to this sector.

While this section has demarcated its analysis of ML into different commercial and financial sectors, in a money laundering operation the different sectors are not mutually exclusive but critically

¹⁴⁴ Schneider, 2004, 14-15

interconnected. In many cases, several different sectors will be used inter-dependently in the context of a single ML operation. The greater the sophistication of the laundering operation, the greater the chance that multiple economic sectors as well as multiple products, services and professionals are used. One sector of the economy (such as deposit institutions) will often be used as a first step in accessing others (such as real estate). Indeed, deposit institutions constitute the common thread running through the myriad of ML schemes used by criminal enterprises. As stated in the 2007 Criminal Intelligence Service Canada (CISC) annual report on organized crime, “Money laundering typically involves the use of a range of financial services — deposit-taking institutions (e.g. banks), currency exchanges, securities traders, insurance companies and “shell” corporations — that can lead to a chain reaction in which numerous institutions are subsequently affected, both domestically and internationally. As a result, specialized expertise is often necessary and individuals in key professions, such as lawyers, accountants and investment brokers, may knowingly or unknowingly assist the laundering process.”¹⁴⁵

6.2.1. Deposit Institutions (Banks, Credit Unions, *Caisse Populaires*)

How Deposit Institutions Satisfy ML Objectives (Why this Sector is Vulnerable)

Deposit institutions are used more often to launder the proceeds of crime than any other single sector of the Canadian economy. Because of their very nature, banks and similar financial service providers are highly conducive to satisfying the aims of the laundering process. First, they can be used to convert the cash proceeds of crime into less suspicious assets – both tangible (e.g. cheques, bank drafts, money orders) and intangible (e.g., bank accounts, term deposits, guaranteed investment certificates, etc.). Second, banking services and instruments, such as cheques, wire transfers, bank drafts, and credit cards can be used to access other laundering vehicles, including real estate, motor vehicles, tax haven countries, etc. Third, ML techniques intended to conceal the criminal origins of the illicit funds can be used in tandem with banking services, such as registering accounts or purchasing monetary instruments in the names of nominees or shell companies. Finally, deposit institutions can be used as part of a laundering scheme that creates the perception that the illicit funds were derived from legitimate purposes, primarily by establishing commercial accounts and depositing the proceeds of crime under the guise of legitimate business revenue.¹⁴⁶

The “big six” domestic chartered banks dominate the financial services industry in Canada and so, like legitimate customers, criminal entrepreneurs tend to gravitate to them. Chartered banks also offer an unparalleled range of services and have an international reputation for efficiency, fast clearing systems, and safeguarding customer confidentiality. A 2015 Finance Canada report states the six largest banks “are financial conglomerates that dominate Canada’s financial sector, and are deeply involved in multiple business lines, including banking, insurance, securities and trust services” which makes them inherently vulnerable to ML.¹⁴⁷ In Schneider’s 2004 study of RCMP cases, 100 of the 114 cases that involved deposit institutions (87.7%) had at least one transaction conducted at a domestic chartered bank. Credit unions and *caisse populaires* were a distant second at 32 cases (28.1%).¹⁴⁸

¹⁴⁵ Criminal Intelligence Service Canada. (2007). *2007 annual report on organized crime in Canada*. Ottawa: CISC

¹⁴⁶ Schneider, 2004, 16

¹⁴⁷ Finance Canada, 2015, 8, 32

¹⁴⁸ Schneider, 2004, 16

The Role that Deposit Institutions Play in Different ML Phases

Deposit institutions have the potential of playing a key role at each stage in the ML process.¹⁴⁹ Cash can be deposited into a bank account under the guise of legal revenue (placement/justification). This can be followed by an EFT to an offshore account (layering) while a mortgage can be obtained and repaid using funds wire transferred back from the off-shore account (extraction/repatriation).

Deposit Institution Services, Products and Assets Used

A wide range of banking services can be used to launder money as documented in a 2011 report by FINTRAC that assesses the vulnerability of chartered banks to ML. Their assessment is derived from analyzing the suspicious transaction reports (STRs) filed by banks and other deposit institutions in Canada between 2007 and 2010. A sizable portion of these STRs was in reaction to cash transactions; cash deposits are mentioned more than twice as often as cash withdrawals. In over a quarter of STRs, the source of funds associated with the reported transaction or account was of concern. The single most frequent STR was in relation to deposits made below the reporting threshold. Table 3 summarizes the types and frequency of STRs submitted by banks taken from the 2011 FINTRAC report.¹⁵⁰

Table 3: Top “Suspicious Transactions” Reported to FINTRAC by Canadian Banks

Theme	Suspicion Concept Grouping	Percentage
Transactions below reporting threshold	Reporting threshold + below reporting	10.3%
Ultimate disposition of funds is unknown	Ultimate disposition + disposition funds + funds unknown	7.2%
Activity over a short time frame	Short time + time frame	5.7%
Use of different currencies	CAD account + USD account	5.0%
High risk jurisdiction	High risk + risk jurisdiction	4.5%
Inconsistent activity or unsubstantiated rationale for activity	Activity not + not support	4.3%
Questioning legitimacy of funds	Source legitimacy + legitimacy funds*	4.6%
Large cash deposits	Large cash + cash deposits	3.8%
Previously reported	Previously reported + reported FINTRAC	3.6%
Multiple cash deposits	Multiple cash + cash deposits	3.3%
Use of personal and business accounts	Personal account + business account*	3.0%
Suspected money laundering offence	Money laundering + laundering offence + reasonable grounds + grounds suspect	2.4%
Unknown source of funds	Original source + source funds + funds unknown	1.7%
Multiple cash withdrawals	Multiple cash + cash withdrawals	1.6%
Multiple cash deposits	Multiple cash + cash deposit	1.1%

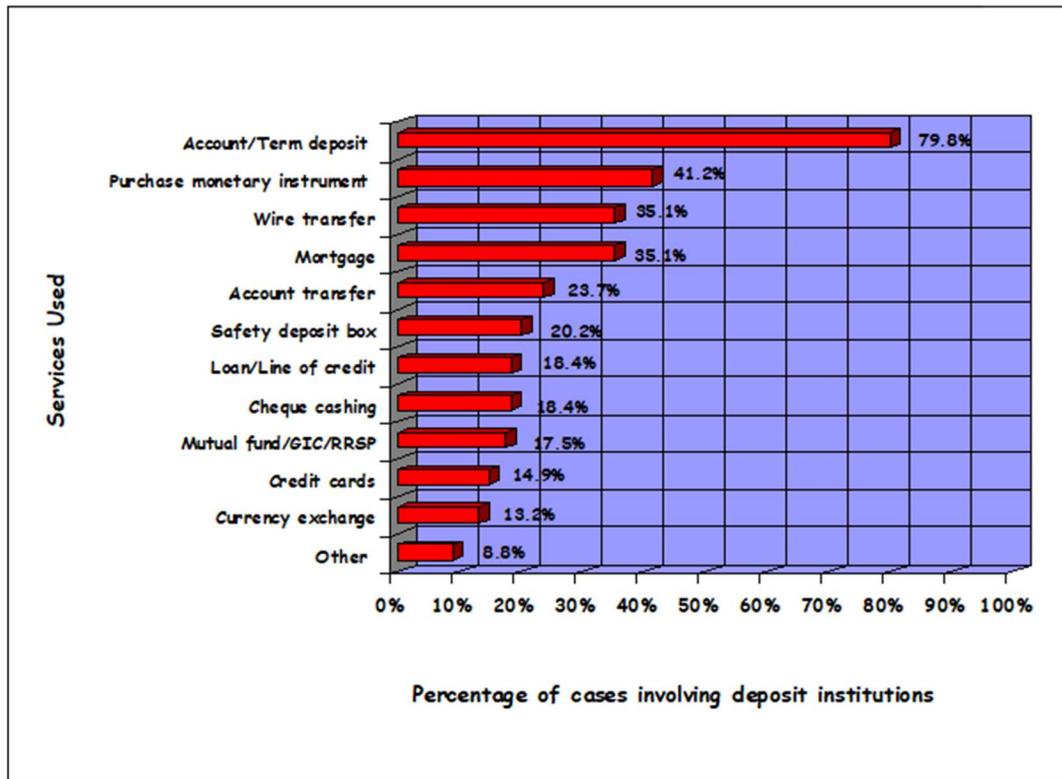
Source: Financial Transactions and Reports Analysis Centre of Canada. (2011). *Trends in Canadian suspicious transaction reporting (STR)*. Ottawa: FINTRAC, 9

¹⁴⁹ German, 2018, 46

¹⁵⁰ Financial Transactions and Reports Analysis Centre of Canada. (2011). *Trends in Canadian suspicious transaction reporting (STR)*. Ottawa: FINTRAC, 7-8

In Schneider’s 2004 survey of RCMP proceeds of crime cases, the most frequently used service for ML at deposit institutions is a savings or chequing account. The purchase of monetary instruments is a distant second.¹⁵¹ Figure 3 shows the frequency with which different banking products and services were implicated in the proceeds of crime cases.

Figure 3: Banking Products and Services Used with Criminal Revenues



Source: Schneider, S. (2004). Money laundering in Canada: A quantitative analysis of Royal Canadian Mounted Police cases. *Journal of Financial Crime*, 11(3), 25.

Savings/Chequing Accounts

Depositing the cash proceeds of crime into a bank account is frequently the first step in the ML process and is used to access other laundering vehicles within the deposit institution or other sectors. Bank accounts relieve the criminal entrepreneur of cumbersome amounts of cash while allowing the funds to be spent, invested, or transferred electronically. As such, a savings or chequing account represents the most common portal through which illegally-derived cash enters a deposit institution and, by extension, the legitimate economy.¹⁵² As discussed, a common ML method is to structure deposits below the reporting threshold.

¹⁵¹ Schneider, 2004, 19

¹⁵² Schneider, 2004, 19

Monetary Instruments

Once the cash proceeds of crime are deposited into a bank account, the funds can be withdrawn in the form of a monetary instrument, such as a bank draft, money order, or a certified cheque, which satisfies a premier ML objective: converting cumbersome amounts of cash into a less suspicious asset. Such instruments can also be purchased directly with cash. The greatest advantage of a negotiable instrument as a laundering tool is it is a more convenient and inconspicuous means to move large amounts of funds or to buy assets.¹⁵³

Case Studies

The proceeds from the sale of a Calgary home, originally purchased with revenue from contraband cigarette sales, were provided to the seller – a long-time cigarette smuggler – in the form of cash as well as four bank drafts, three in the value of \$25,000 and one worth \$35,000. The next day, the accused went to a local branch of his bank where he cashed one of the \$25,000 bank drafts, receiving 10 thousand-dollar bills and 100 hundred-dollar bills. He then went to another bank where he also had an account and cashed the \$35,000 bank draft.¹⁵⁴

&&&

A drug trafficker in Nova Scotia bought four bank drafts with cash, which he then used to help finance the purchase of more than 30 acres of property. A police search of a Halifax law office that represented the drug trafficker discovered a series of receipts, all dated the same day, issued by the law firm to their client for deposits into the firm's bank account. Police also found a bank deposit slip at the law office showing that four bank drafts from four different banks were deposited into the law firm's bank account on behalf of this client. The drafts were in the amounts of \$4,600, \$3,800, \$4,400, and \$4,700, respectively.¹⁵⁵

Electronic Fund Transfers

Electronic Fund Transfers (EFTs), otherwise known as wire transfers, is tantamount to sending money almost instantly to a different branch, a different bank, and even a different country. One of the advantages of a wire transfer for ML purposes is that it is not confined to national borders; they can be used for the express purpose of spiriting illicit money outside the country of origin, whether for ML purposes or to purchase drugs or other contraband. Some of the suspicious transactions at banks involving EFTs flagged by FINTRAC include account deposits that are quickly followed by an EFT or the purchase of a bank draft immediately following receipt of an EFT, the use of multiple EFTs all of which are below the reporting threshold of \$10,000, and EFTs sent to drug source countries.¹⁵⁶

¹⁵³ Schneider, 2004, 19, 20

¹⁵⁴ Schneider, 2004, 21

¹⁵⁵ Schneider, 2004, 21

¹⁵⁶ Financial Transactions and Reports Analysis Centre of Canada. (2009a). *Money laundering and terrorist financing typologies and trends in Canadian banking*. Ottawa: Financial Transactions and Reports Analysis Centre of Canada, 6

Account Transfers

Transferring funds between different bank accounts is a common layering technique (used to obscure any paper trail between the laundered funds and its criminal source) and can also satisfy the integration function (by embedding the multiple layering transactions within the banking sector). As a laundering technique, “pass-through” accounts are established solely to expedite multiple account transfers. FINTRAC notes that a common layering and integration technique is to deposit cash or a cheque into a bank account “followed by transfers to accounts held by the same individual/entity in other Canadian or foreign financial institutions.”¹⁵⁷ Police cases show that account transfers are frequently used to funnel money into the accounts of nominees and shell companies.

Case Study

Thirteen people involved in a British Columbia-based inter-provincial drug trafficking network (most of whom were family members related by blood or marriage) made numerous account transfers to one another among various banks, credit unions, and currency exchange companies. The 13 individuals made deposits into accounts controlled by one another as well. These transactions took place primarily in B.C. bank accounts but also those in other provinces. According to the RCMP, the primary purpose of the account transfers was to distribute profits from the drug sales and to pay for drug supplies and other expenses.¹⁵⁸

Safety Deposit Boxes

Safety deposit boxes are used primarily to store cash or gold, precious gems, jewellery, or coins bought with criminal revenue. In addition to providing a secure place to store valuables, the benefit of a safety deposit box for ML is the contents of a safety deposit box can be kept confidential.¹⁵⁹

Case Study

A cocaine trafficker placed the majority of his cash proceeds in safety deposit boxes at three different banks in Vancouver. The deposit boxes were in his name as well as that of an associate. The cash was a mixture of American and Canadian currency. The trafficker would add and remove the cash frequently, based on his cocaine sales and purchases. At one point, the total amount of Canadian cash held in two safety deposit boxes at one bank was \$407,175. A search of other safety deposit boxes rented by the man turned up a large amount of jewellery, including gold and diamond-encrusted watches, chains, bracelets, earrings, and rings. (A police search of his home also turned up a gold-plated licence plate holder that read “Crime Pays.”)¹⁶⁰

¹⁵⁷ Financial Transactions and Reports Analysis Centre of Canada, 2009a, 6

¹⁵⁸ Schneider, 2004, 22-23

¹⁵⁹ Schneider, 2004, 23

¹⁶⁰ Schneider, 2004, 24

Use of Multiple Banking Services and Transactions

Within the context of even one deposit institution, many different transactions, products, and services can be used to launder the proceeds of crime. The use of multiple services and transactions often follows the deposit of cash and is employed as part of the layering and integration process.

Case Study

In their 2009 report examining money laundering through the banking sector, FINTRAC discusses one case referred to them involving several individuals and MSBs located in the greater Vancouver area that were under investigation for suspected involvement in importing drugs to Canada from Asia and the subsequent laundering of the proceeds. FINTRAC's analysis revealed financial transactions conducted by or associated with five of the individuals and three MSBs. FINTRAC describes the transactions suspected of ML conducted in the banking sector as part of this suspected criminal conspiracy.

- Large cash deposits (in CAD and USD) into personal accounts were sometimes followed by the purchase of bank drafts payable to trust companies or money services/currency exchange businesses.
 - Domestic wire transfers between personal accounts were followed by the purchase of bank drafts payable to trust companies.
 - Bank drafts and cheques issued from other financial institutions were deposited into personal and business accounts and were sometimes followed by EFTs to a Middle Eastern country.
 - EFTs were also received from the same Middle Eastern country
 - Multiple transactions were carried out on the same day at the same branch but with different tellers, hours apart.
 - Some cash deposits were structured to keep amounts under the reporting threshold and/or conducted at different branches.
 - Cash, cheques and bank drafts were deposited by third parties into the business accounts of MSBs and domestic wires were received into the same accounts; they were immediately followed by withdrawals to purchase bank drafts payable to other MSBs which then sent EFTs to various beneficiaries in foreign countries.
 - The same MSBs receiving deposits or wires also directly sent EFTs to beneficiaries in foreign countries.¹⁶¹
-

Money Laundering Methods and Techniques Specific to Deposit Institutions

ML operations involving deposit institutions will often employ certain techniques to minimize suspicion that may arise when large amounts of cash are deposited into accounts. In their 2009 report on ML

¹⁶¹ Financial Transactions and Reports Analysis Centre of Canada, 2009a, 7-8

through the banking sector, FINTRAC notes that the most common ML methods were structuring and smurfing.¹⁶²

Nominees

It is not uncommon for a money launderer to open accounts in the name of nominees, often relatives, which is quickly followed by cash deposits and then other transactions by and for the nominees, such as the purchase of bank drafts or the issuing of cheques made payable to the nominees.¹⁶³

Case Study

A Calgary-based cocaine trafficker had signing authority for 25 bank accounts, most of which were registered in the names of relatives. The accused favoured his mother and father-in-law as nominees because both were new immigrants that spoke little English and, as such, he could maintain power of attorney and sole signing authority over the accounts. Over a year, the accused wrote eight cheques payable to his mother totalling \$182,050, all of which were deposited into the bank accounts in her name. A single cash deposit of \$162,182 was also made into an account registered in her name. Despite deposits of hundreds of thousands of dollars in the account of his mother, she applied for and received government social assistance. The accused also wrote three cheques payable to his father-in-law worth \$68,500 which were deposited to the latter's personal bank account. In one year, the accused deposited almost \$1.4 million in a bank account registered in the name of his father-in-law. He also wrote several cheques to nominees from accounts registered in the names of other nominees. For example, a cheque for \$53,000 payable to his brother-in-law was drawn on an account registered in the name of the mother of the accused.¹⁶⁴

Establishing Commercial Accounts and Depositing Illicit Funds in the Name of Companies

Criminal entrepreneurs will employ certain fronts when opening accounts in which deposits of illicit funds are to be made and transactions conducted. One of the most popular is establishing a commercial account in the name of a shell or legitimate company. To avoid suspicion associated with depositing large amounts of cash in small denominations, the type of company used as a guise should typically generate a high volume of cash in small denominations, such as grocery stores, restaurants, nightclubs, movie theatres, or video arcades.¹⁶⁵

Avoiding Contact with Bank Personnel

Through the use of automated teller machines or night deposits, cash can be deposited into an account without the depositor ever having to deal directly with bank personnel. The advantages of these more

¹⁶² Financial Transactions and Reports Analysis Centre of Canada, 2009a, 3

¹⁶³ Financial Transactions and Reports Analysis Centre of Canada, 2009a, 13

¹⁶⁴ Schneider, 2004, 26

¹⁶⁵ Schneider, 2004, 27

clandestine transactions are obvious: the launderer can by-pass any potential (face-to-face) scrutiny of bank staff and deposits can be structured by using multiple ATMs and numerous accounts.¹⁶⁶

Case Studies

Two Canadian liquor smugglers based in British Columbia regularly crossed into the United States to purchase caseloads of booze from a bar in Blaine, Washington. The smugglers would then deposit cash into the Canadian bank accounts of the bar owner to pay for the contraband liquor. Once the balance reached \$20,000 to \$25,000, the bar owner would empty the account by writing a cheque, the proceeds of which would be deposited into his U.S. bank account. The bar owner had accounts at three different deposit institutions in Canada into which large cash deposits were made. From 1995 to 1998, approximately \$1,700,000 in Canadian cash was deposited into these accounts (primarily in 50- and 100-dollar denominations). One of the smugglers regularly made night deposits or used an ATM to avoid the scrutiny of tellers. He also used gloves to avoid fingerprints or had his wife make the deposits.¹⁶⁷

6.2.1.1. Money Laundering and Deposit Institutions in British Columbia

The use of banks in B.C. for ML purposes does not deviate significantly from the information provided above, with perhaps two significant exceptions. First, for years B.C. branches of deposit institutions were highly vulnerable to the proceeds from the province's burgeoning marijuana trade. Second, bank branches in B.C. are much more exposed to capital flight money from China.

In October 2015, a Globe and Mail investigation reported that some Canadian banks allowed wealthy Chinese investors from the PRC to “skirt Chinese law by helping them bring in large amounts of money that is often used to buy real estate in Vancouver” by allegedly accepting millions of dollars “through multiple wire transactions of smaller amounts by family and friends.”

The newspaper cites a recent B.C. court case in which the Canadian Imperial Bank of Commerce “regularly helped wealthy clients move large amounts of money out of China – using several transactions and multiple third parties – even though the bank is familiar with Chinese law.”

Kim Clark, a CIBC corporate-security investigator who testified during one court case, was quoted as saying, “This process is often conducted using different remitters in the same Chinese city sending funds to one or more accounts in CIBC, then through a common financial adviser get the funds collected back in one account – to be paid out to a law firm.”

Clark’s testimony was made during a wrongful dismissal suit by Guiyun Ogden, who was a financial adviser with CIBC’s Imperial Service unit and who managed the portfolios for wealthy Chinese clients in Vancouver. Ogden helped a client move (US)\$500,000 out of China by using friends and relatives to send ten wire transfers into ten different CIBC accounts overnight. Ms. Ogden then transferred the money into another account for her client to use as a down payment on a (CDN)\$5.7-million Vancouver mansion.

¹⁶⁶ Schneider, 2004, 28

¹⁶⁷ Schneider, 2004, 28

Ms. Ogden was fired for moving some of that money through her own CIBC accounts, but the bank apparently supported the practice of multiple transactions, seemingly to circumvent the aforementioned Chinese laws, the Globe and Mail asserts.

The testimony from CIBC's Kim Clark suggested the practice "enabled the client to say, 'I am not bringing in (US) \$500,000 from China; me and these nine other third parties are each bringing in \$50,000.'"

The Globe and Mail also mentions "other B.C. cases in family court that show how millionaires moved their money out of China through multiple transfers into Canadian bank accounts held by spouses and relatives here."¹⁶⁸

6.2.2. Real Estate

Since at least 2011, there has been an increasing number of news stories, studies, reports, and police cases concerned with ML through the real estate market in Canada. This section examines the literature on ML in real estate generally and in Canada, B.C., and Metro Vancouver specifically. One of the key questions addressed in this analysis is: What factors make real estate in Canada and B.C. a high risk for ML?

How the Real Estate Sector Satisfies ML Objectives (Why this Sector is Vulnerable)

Real estate has many attributes that make it an attractive destination for the proceeds of crime. It provides a home in which the offender can live and work while houses and rural properties can also be used for criminal activities, such as illegal gambling, prostitution, counterfeiting, or the production of marijuana and synthetic drugs. Dirty money can be funnelled to real property via nominees or holding companies and can be laundered through down payments, mortgages, legal trust accounts, as well as construction and renovation expenses. Real estate investments can also be used to create the perception of a legitimate revenue stream, with the proceeds of crime being deposited into bank accounts under the guise of rental income or the sale of a property. Additional incentives such as property value appreciation make real estate an even more viable laundering vehicle.

The Expert Panel on Money Laundering in B.C. Real Estate elaborates on the several reasons why real estate is attractive to money launderers.

Real estate is a large and diffuse market with high-valued assets that is simple to enter. Placing large sums in individual assets without arousing suspicion doesn't require expertise. Large transaction volumes occur in both the purchase and financing of real estate, allowing individual transactions to take place without the detailed regulatory oversight of transactions in financial markets.

Real estate is a secure investment. Properties can hold their value and are not as sensitive to management decisions as are active businesses. It is particularly attractive in markets that have high levels of demand and rising prices.

¹⁶⁸ Globe and Mail, September 8, 2015, Canadian banks helping clients bend rules to move money out of China

Part of the safety of real estate lies in the fact that there is certainty of legal ownership but many ways to hide beneficial ownership.

There are several mechanisms to generate clean profits from real estate, including capital gains from the sale of property, rents for the use of property, and debt service payments from the financing of property. Commercial property purchased as part of a business purchase can be used to mix legitimate business revenues with dirty money as a money laundering technique.

Speculation is part of the normal operation of the real estate market, making short-term holds for layering money appear legitimate and allowing potential validation of large gains in asset values from speculative investments for money launderers.

Real estate can be a prestigious investment, especially in certain neighbourhoods, which can be attractive to those wishing to trumpet their wealth.

Real estate assets are very heterogeneous. The value of each parcel of real estate depends on its unique combination of characteristics and location, so it is difficult to determine whether a given transaction value differs from the actual market value of the property. That can make real estate attractive to those wishing to manipulate prices in order to launder money.

Real estate is required for the conduct of many criminal enterprises, making control of that property by the criminals a necessity.

These and other attributes make investment in real estate especially useful as an investment for those laundering money.¹⁶⁹

Services, Products and Assets Used / The Role the Real Estate Market Plays in Different ML Phases

The Expert Panel notes that ML through real estate is much more complicated than the stereotypical drug dealer using large amounts of cash to purchase property. Most types of ML transactions using real estate take place after the cash proceeds have already been placed in the financial system and often after the funds have been layered to disguise their source. The table below, taken from the Expert Panel's 2019 report, lists some of the common ML transactions specific to real estate and which phase of the laundering process the transaction best falls into.

Table 4: Real Estate Money Laundering Transactions

Real estate transaction	Money laundering phase
Purchase real estate without a mortgage to earn rental and capital gains income using a corporation or nominee owner, sometimes with a subsequent resale	Integration/extraction – This is a way to extract legitimate income from an asset purchased with proceeds of crime that have already been justified.

¹⁶⁹ Expert Panel on Money Laundering in B.C. Real Estate, 2019, 16-17

<p>Purchase real estate with a relatively high loan-to-value ratio mortgage, using a corporation or nominee owner and an unregulated private mortgage lender, sometimes with a subsequent resale</p>	<p>Placement and layering – Such a transaction can leverage money being layered, and mortgage payments can be a way to place dirty money, especially if the lender will accept cash for debt service payments.</p>
<p>Purchase real estate with a low loan-to-value ratio mortgage, using a corporation or nominee owner and a regulated mortgage lender, sometimes with a subsequent resale</p>	<p>Layering, justification and integration/extraction – This type of transaction could justify the asset if the equity in the purchase has already been layered and the source of funds to pay the mortgage is not a consideration in lending. It can generate rental and capital gains income for extraction.</p>
<p>Purchase real estate or a business owning real estate to conduct criminal activity, sometimes combined with legitimate business activity</p>	<p>Placement and integration/extraction – Regardless of the structure of the purchase, the purpose of the transaction includes using the property to conduct criminal activities and thus generate profits. It can also provide opportunities to combine dirty money with legitimate business cash flow.</p>
<p>Abort an accepted offer to purchase before closing</p>	<p>Placement, layering and justification – The return of money deposited to the trust account of a lawyer, notary or real estate agent increases the legitimacy of the transaction and makes the money harder to trace back to the crime.</p>
<p>Invest in mortgages</p>	<p>Layering, justification and integration/extraction – Mortgage investments provide a combined interest and return-of-capital stream of funds that appears legitimate. Buying and selling investments in a mortgage lending scheme, whether a mortgage investment corporation, syndicated mortgage or other vehicle, combined with other types of asset purchase and sale transactions, can be layering activity.</p>

Owners build a custom home or conduct a major renovation	Placement and integration/extraction – Use of proceeds of crime, including but not limited to cash payments to building trades, is a way to contribute dirty money to increase the value of an asset that can subsequently be sold at a profit that appears legitimate.
Purchase and assign condominium pre-sale purchase agreements	Layering and justification – Purchase and sale of these assets may help to make the funds appear increasingly legitimate and provide an opportunity to earn capital gains.

Source: Expert Panel on Money Laundering in BC Real Estate (Maureen Maloney, Tsur Somerville, Brigitte Unger). (2019). *Combatting money laundering in BC real estate*. Vancouver: Expert Panel on Money Laundering in BC Real Estate, 20-21.

In his analysis of RCMP proceeds of crime cases, Schneider found that the type of real estate most often purchased with the proceeds of crime was single-family residential homes (72.3% of all cases involving real estate). Other types of land purchased with the proceeds of crime include vacant land (25.2%), commercial properties (13.3%), multi-residential properties (12%), and rural farmland (8.4%).¹⁷⁰

ML Techniques Specific to this Sector

Laundering money through real estate ranges from the simple to the sophisticated. At one end of the scale, the accused simply buys a home and registers the property in his or her name. At the other end of the spectrum are schemes that include nominee owners, under-invoicing, renovations, mortgage payments from offshore accounts and shell companies, to name just a few. Some of the more common techniques are discussed below.

Concealing Criminal Ownership: The Use of Nominees and Fronts

One of the more prevalent techniques used to facilitate the laundering process in the real estate market is to register title and/or a mortgage in the name of a nominee. Police cases show that real property and mortgages are often registered in the names of relatives, friends, business associates, lawyers, and shell or legitimate companies. While it is not unusual for a legitimate buyer to register title to real estate in the name of a family member or a company, criminal entrepreneurs have taken advantage of this practice to satisfy a pre-eminent objective of ML: hiding the criminal beneficial ownership and source of financing for the property.¹⁷¹

According to German, the “proceeds of crime are provided to the nominee for the purchase, and the nominee becomes the legal titleholder. There may be an express trust agreement giving the criminal beneficial ownership rights over the property, or it may be implied without any formal arrangement.

¹⁷⁰ Schneider, 2004, 34

¹⁷¹ Schneider, 2004, 33

Criminals may also use nominees to access financial services, such as obtaining mortgages or depositing/transferring funds.”¹⁷²

As Transparency International states in their 2019 report, *Opacity – why criminals love Canadian real estate*, “In Canada, individuals can own a property and hide this fact from law enforcement, tax authorities, and private sector entities with AML obligations. Canada’s property registers allow beneficial owners to use companies, trusts, or nominees to hold title to property and remain anonymous, which facilitates ML in the real estate sector.”¹⁷³

Case Studies

A British Columbia drug trafficker confessed that he owned 21 homes throughout the province that were used for marijuana grow operations. The houses, almost all of which were mortgaged, were rented out to individuals he hired to oversee the grow operations in return for a percentage of the profits. Three of these properties were registered in the name of the wife of the drug trafficker, while seven were registered to companies of which he was listed as a director. The proceeds of crime investigation could not find one property in B.C. that was directly registered in the name of the trafficker.¹⁷⁴

&&&

George Burden, who was convicted for his involvement in importing multi-ton shipments of hashish into Canada, owned several homes in the Greater Vancouver area. This included his principal residence in Vancouver, which was registered in the name of a Bahamas-based company called Taipei Trading Corp. Police later determined that this company existed on paper only, and was used primarily to launder funds from the hashish importation conspiracy.¹⁷⁵

&&&

In his 2019 *Dirty Money* report, German describes a 2015 civil forfeiture case against the property of convicted drug trafficker Frederick Dwayne Wilson.

At the time of his arrest, Wilson and his spouse were living in a home in Surrey that had allegedly been acquired with the proceeds of his drug trafficking activities. The civil forfeiture claim details how Wilson paid for the property and lived there despite his brother-in-law serving as a nominee on title.

According to court filings, Wilson and his wife were the de facto buyers of the property. They reportedly completed a home inspection and signed a contract with the sellers before substituting Wilson’s brother-in-law as the purchaser at the last minute. The \$768,000 home was acquired in December 2011.

¹⁷² German, 2019, 77

¹⁷³ Transparency International Canada. (2019). *Opacity – why criminals love Canadian real estate (and how to fix it)*. Ottawa: Transparency International

¹⁷⁴ Schneider, 2004, 33

¹⁷⁵ Schneider, 2004, 33-34

To finance the purchase, Wilson made a number of structured cash payments to his brother-in-law and his mortgage broker, who used those funds to make the \$169,000 down payment for the transaction.

Wilson's brother-in-law took out a \$616,000 mortgage with an unregulated lender and two years later obtained a second mortgage against the property with a BC-registered numbered company. Though the loans were in the name of Wilson's brother-in-law, Wilson and his wife allegedly covered the mortgage payments by depositing cash into his bank account.¹⁷⁶

Mortgages

While many criminal entrepreneurs have no shortage of money to invest in real property, mortgages are nonetheless obtained, either to avoid suspicion associated with large personal financing or because the purchaser genuinely requires credit. There is also some evidence that criminal entrepreneurs seek out a mortgage to limit their equity in a home to minimize their personal financial loss if the property is forfeited to the government. In Schneider's analysis of RCMP proceeds of crime cases, a mortgage was obtained in 65 of the 83 cases involving real estate (78.3%) with the monthly payments made through illegally-derived funds. In some cases, the mortgage (as well as title to the property) is in the name of a nominee. In other cases, a criminal entrepreneur supplies a private mortgage for a property that he controls but is registered in another's name. This laundering technique hides the true criminal ownership of the property while providing the nominee with a seemingly legitimate source of funds to purchase the home. Alternatively, the source of mortgage financing is listed in the name of a shell company.¹⁷⁷

German notes that private mortgage entities are a growing segment of the lending market and are vulnerable to being used for criminal purposes, including mortgage fraud and ML. Private mortgage companies do not have to report to FINTRAC and "there is no visibility of their beneficial owners, source of funds or lending practices." Much of the overseas capital used for private mortgages transits through Canadian "gatekeepers," such as lawyers, which can further help obscure beneficial ownership.¹⁷⁸

A 2015 Department of Finance Canada report recognized mortgage fraud as one of the highest-risk areas for ML through real estate in this country.¹⁷⁹ In some cases, the ML constitutes the fraud when using nominees or false records to obtain a mortgage from a bank.

Case Study

Police identified at least 12 homes in Vancouver owned by members of a major international drug trafficking group. Of the 12 homes, two were registered in the names of active members of the criminal group, two were registered in the names of numbered companies controlled by certain members, and

¹⁷⁶ German, 2019, 76-77

¹⁷⁷ Schneider, 2004, 35

¹⁷⁸ German, 2019, 51

¹⁷⁹ Finance Canada, 2015

seven were registered in the names of wives, daughters, or associates of the group. Of these seven properties, three had private mortgages financed by members or associates of this crime group. These three mortgages were provided on top of existing mortgages, registered by reputable financial institutions at the time the properties were purchased. The three properties were bought for a total of \$1,250,685.15. The total value of the mortgage financing provided by banking institutions at the original time of purchase was \$700,000. The total value of the additional private mortgages purportedly financed by members or associates of the crime group was \$370,500.¹⁸⁰

Purchase of Income-Generating Property

Another technique used to further the laundering process in the real estate market is to buy an income-generating property. Tenants can pay their rent in cash which can then be co-mingled with the cash proceeds of crime and deposited in a bank account under the guise of rental income. This technique is used to create the façade of a legitimate revenue source for a criminal entrepreneur. According to the FATF, “Rent-based schemes are often further obscured through the use of corporate entities that serve as management companies, which collect rents and administer properties.”¹⁸¹

“Flipping” Real Property

In some cases, the accused or a nominee will buy real estate with criminal revenue and then quickly sell it, thereby claiming a legitimate source of revenue. The sale, in fact, can be bogus in that the property is sold to a nominee, which allows the offender to claim legitimate revenue while keeping ultimate control over the property. Flipping a house may be preceded by renovations so the home can be sold at a higher price. The added benefit is that it takes advantage of the sizeable underground, cash-based home renovation industry. Cash is paid under the table to contractors, benefiting both parties: the criminal entrepreneur profits because he has acquired an asset while relieving himself of cumbersome cash and the contractor benefits through the undeclared income he receives.¹⁸²

Founding and Operating Real Estate (Development) Companies

Criminal organizations laundering money through real estate can incorporate realty companies, mortgage-brokerage firms, and development or construction companies to ease access to real property.

Case Study

During the investigation into Gary Hendin, an Ontario lawyer, police discovered that he incorporated several shell companies and trust accounts, in Canada and abroad, through which he would funnel drug proceeds to buy real estate in Canada. To further legitimize his real estate transactions, Hendin incorporated construction and development companies, through which properties would be purchased

¹⁸⁰ Schneider, 2004, 40

¹⁸¹ Financial Action Task Force. (2007). *Money Laundering & Terrorist Financing through the Real Estate Sector*, June. Paris: FATF, 15-16.

¹⁸² Schneider, 2004, 37

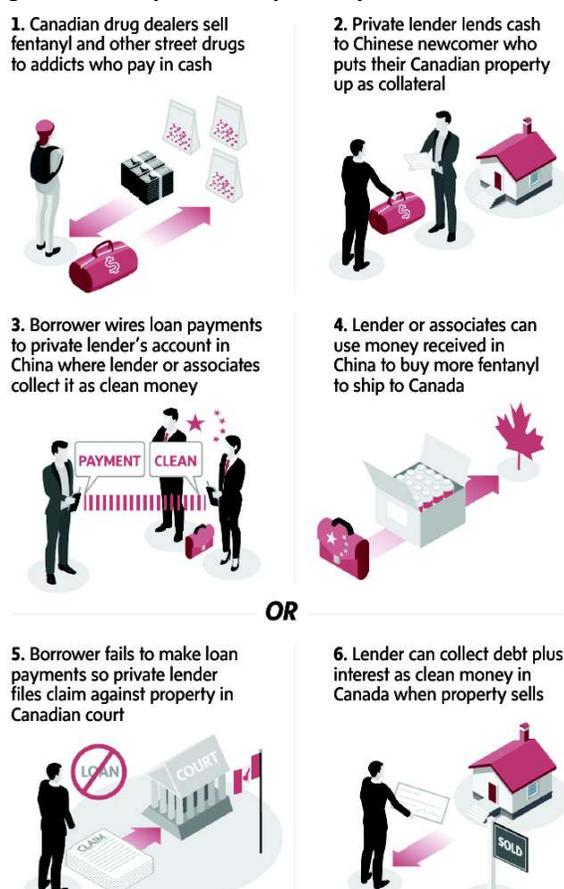
with mortgages financed by other shell companies he had set up. In one such transaction, he used construction, development, and mortgage finance companies to purchase property already owned by another shell company he had established. One of the purposes of buying property that Hendin already *de facto* owned was to repatriate funds to Canada (in the form of a mortgage) that was in the offshore bank account of a shell company Hendin also established offshore.¹⁸³

6.2.2.1. Money Laundering and the Real Estate Market in B.C.

The real estate market in Canada and B.C. is exposed to Chinese capital flight money as well as the proceeds from more traditional organized crimes, such as drug trafficking. A Global News story from November 2018 cites a “secret police study” that estimated “crime networks could have laundered over \$1B through Vancouver homes in 2016.” Global News’ own analysis suggests the “same extended crime network may have laundered about \$5-billion in Vancouver-area homes since 2012.”¹⁸⁴

An investigative report by the Globe and Mail in February 2018 contends that drug traffickers connected to the fentanyl trade “are parking their illicit gains in the Vancouver-area property market.” In contrast to the traditional method of using drug proceeds to purchase real estate, however, this drug money is being funnelled into the real estate market as private mortgages and loans supplied by underground MSBs and professional money launderers. Like a bank, the private lenders will supply a loan for a real property purchase, “then register a land-title charge against the borrower’s real estate equal to the value of the debt, plus interest. The charge, which gives them a stake in the real estate, stays in place until the debt is cleared. If the property is sold, the loan is paid out from the sale proceeds, in clean money, all seemingly legal. Except these financiers are unregulated and unlicensed and the loans they grant are in cash, which is likely dirty money derived from drug deals or other crimes. In a graphic entitled “The cycle of dirty money,” the article depicts “the path drug

Figure 4: The Cycle of Dirty Money in B.C. Real Estate



Source: Globe and Mail, Feb. 16, 2018, B.C. vows crackdown after Globe investigation reveals money-laundering scheme

¹⁸³ Schneider, S. (2003). The incorporation and operation of criminally controlled companies in Canada. *Journal of Money Laundering Control*, 7(2), 126-138 @ 131

¹⁸⁴ Global News, November 26, 2018, Secret police study finds crime networks could have laundered over \$1B through Vancouver homes in 2016

money can take if it's laundered through real estate loans and mortgages.”¹⁸⁵

The Globe cites the case of Ying Zhang, Zhi Guang Zhang and Wei Zhang who operated as informal (private) mortgage lenders in Metro Vancouver, issuing millions of dollars in registered mortgages and short-term loans.

The Zhangs charge interest rates of up to 39.6 per cent, with some private lenders demanding up to 120 per cent. Court records show that one of the Zhangs' associates is among those allegedly charging that extortionate level of interest, which is double the maximum legal rate.

By combing through hundreds of lawsuits, foreclosures and property records, The Globe identified 17 such lenders, who have collectively claimed a \$47-million stake, plus interest, in 45 Vancouver-area properties in recent years. The three Zhangs alone laid claim to at least \$20.7-million of that, individually or through numbered companies.

Their target customers are wealthy Chinese newcomers or tourists – and their grown children – who've bought property in Canada and who want to use it as leverage to borrow large amounts of cash, as they might with a home-equity line of credit, for gambling or other extravagances. Some borrowers appear to use the loans to pay down other debts.

Most of the homeowners already have at least one mortgage with a Canadian bank and may have maxed out their legitimate borrowing power in this country.

Enter the private lenders, offering quick, easy money – by word of mouth – through social and business circles.

Police became aware of their suspicious activity and put them under surveillance. They were eventually caught with \$660,970 in small bills (apparently covered with traces of fentanyl and other street drugs).¹⁸⁶

Beyond the Zhangs, the newspaper reports on other private mortgage lenders in B.C.: “Xun Chuang, who has a record of drug crimes; Vinh-Loc Chung, convicted for carrying a restricted firearm; Xiao Ju Guan, found storing ecstasy and other drugs; Ye Jin Li, convicted on drug charges; and Kwok Chung Tam, a long-time Vancouver lender who's been convicted of drug crimes. Mr. Guan also ran a business wiring cash overseas.”¹⁸⁷

Also allegedly among the private lenders was Paul King Jin, who is accused of being at centre of the massive money laundering operation known as the Vancouver Model. As described in more detail later in this report, it is alleged that Jin was laundering drug money through private mortgages and loans to developers, often in cash. In a lawsuit filed against Jin, the B.C. civil forfeiture office alleges Jin and his

¹⁸⁵ Globe and Mail, February 16, 2018, B.C. vows crackdown after Globe investigation reveals money-laundering scheme

¹⁸⁶ Globe and Mail, February 16, 2018, B.C. vows crackdown after Globe investigation reveals money-laundering scheme

¹⁸⁷ Globe and Mail, February 16, 2018, B.C. vows crackdown after Globe investigation reveals money-laundering scheme

associates threatened physical violence or used violence to collect from his debtors. As the Globe and Mail reports, the lawsuit “highlights one alleged incident in February 2013, in which one of Mr. Jin’s employees tried to kidnap the child of a debtor, visiting a Vancouver school with photocopies of their ID but failing to get the child released. That employee was arrested by Vancouver police that day while following a car carrying the child, the claim states.”¹⁸⁸

German agrees that private lending and mortgages “is a major money laundering vulnerability” in Vancouver. As part of the research for his 2019 *Dirty Money* report, mortgages from unregulated lenders were a common feature in the sample of real properties he analyzed which had known or suspected ties to criminal activity.¹⁸⁹

Factors that Make the Canadian and B.C. Real Estate Markets at Risk of Money Laundering

A 2015 ML risk assessment report written by Grant Thornton LLP for the Financial Transactions and Reports Analysis Centre of Canada concludes that “a significant risk factor” for ML is “the purchase of Canadian real estate assets with offshore money and/or by offshore persons.” Another risk factor noted in the report is the “high number of cash transactions.” The report also argues that there is “no quality and ethics infrastructure in place,” in the real estate profession and “significant portions of the sector are apparently unengaged” in complying with the AML regime that FINTRAC administers.¹⁹⁰

A 2016 Vancouver Sun article cites a FINTRAC report that examined approximately 220 real estate companies in B.C. between 2012 and mid-2016 and found 112 companies with “significant” levels of non-compliance and five with “very significant” non-compliance. According to the newspaper, the 12-page FINTRAC brief says there was a “minimal” filing of suspicious transaction reports in Canadian real estate, with only 127 reports filed by real estate brokers, agents or developers between 2003 to 2013 despite five million sales during that same period. FINTRAC concludes that through its compliance examinations, it “has observed deficiencies in most aspects of the real estate sector’s compliance programs that render it more vulnerable of being used by criminals to launder illicit funds.”¹⁹¹ German notes that several key actors in Canada’s real estate sector are not even subject to any AML regulation; including, mortgage brokers, private lenders, redevelopers, appraisers and ‘for sale by owner’ companies.¹⁹²

Real estate laws in B.C. (and much of Canada) have also been criticized for not requiring purchasers or sellers to any disclose beneficial ownership of real property. As German puts it,

Opaque ownership structures allow criminals to remain anonymous and provide a veil with which to conceal money laundering activity in real estate. Of the legal entities that hold \$28

¹⁸⁸ Globe and Mail, March 22, 2019, B.C. civil forfeiture office suing target of massive money-laundering investigation

¹⁸⁹ German, 2019, 13

¹⁹⁰ Embassy News, August 12, 2015, High risk of dirty money in Canadian real estate, says report ordered by financial intel agency; CBC News, August 24, 2015, Money laundering watchdog concerned about real estate bought with offshore cash

¹⁹¹ Vancouver Sun, November 18, 2016, Money-laundering watchdog cites ‘significant’ deficiencies at 100-plus B.C. real estate firms

¹⁹² German, 2019, 53-54

billion in residential property in B.C., the vast majority are privately owned with no information on who ultimately controls them. There is no way to accurately identify nominee owners or properties held through unregistered trusts. Requiring beneficial owners to be identified for all properties (including those held through nominees) would make money laundering in B.C. a much less desirable business.¹⁹³

Writing on the Canadian Bar Association (B.C. Branch) website, Adam Ross argues that “Canada is fast becoming a destination of choice for money launderers worldwide, who are taking advantage of the country’s under-regulated, loophole-riddled real property market to wash and hide billions in illicit wealth.”

Canada is both a desirable place to live and an attractive market in which to invest. But those looking to launder money or evade tax are equally attracted to the country’s opaque ownership rules, its low levels of compliance with AML regulations, and limited AML enforcement. Three factors make Canadian real estate particularly attractive for money laundering. First, Canadian land title offices do not hold information about beneficial owners of property, effectively granting them anonymity. Second, though the bar for AML compliance is set lower for real estate professionals than it is for most other reporting entities and individuals, the industry is still notoriously poor at complying with fulfilling its duties under Canada’s AML laws. Third, the enforcement of those AML laws is so lax that there is little deterrent for those looking to launder money through Canadian property.¹⁹⁴

Another major loophole that increases the risk of ML in Canada, and the real estate market in particular, according to the literature, is that lawyers are exempt from reporting cash or suspicious transactions to FINTRAC, nor do they face any federal or provincial oversight concerning their role in real estate transactions. As a 2015 Finance Canada report on ML succinctly states, “Real estate transactions usually involve lawyers and their trust accounts. These lawyers can knowingly or unknowingly provide legitimacy and/or obscure the source of illegally sourced funds.”¹⁹⁵ A 2017 report for Transparency International, entitled *Doors wide open: Corruption and real estate in four key markets*, notes that while AML provisions cover real estate agents, brokers and developers, notaries from British Columbia and accountants, they do not cover other professions such as lawyers, law firms and Quebec notaries. Given their roles in real estate closings, this is a major loophole. Real estate professionals are not required to identify the beneficial owners of customers when conducting due diligence.¹⁹⁶

The lack of beneficial ownership disclosure requirements is considered a significant risk factor for the ML through Canadian real estate in that a sizeable portion of illicit money entering the market is from offshore. Canadian lawyers can be wired large amounts of funds from offshore accounts which can be placed in legal trust accounts and used to purchase real property without informing FINTRAC.¹⁹⁷ A 2017

¹⁹³ German, 2019, 13

¹⁹⁴ Ross, A. (n.d.). On our doorsteps: Money laundering in Canadian real estate. Canadian Bar Association, B.C. Chapter, Internet web site

¹⁹⁵ Finance Canada, 2015, 53

¹⁹⁶ Martini, M. (2017). *Doors wide open: Corruption and real estate in four key markets*. Berlin: Transparency International

¹⁹⁷ The Province, August 25, 2015, Canada's dirty money detection system broken all the way through

article in the Vancouver Sun reports on a memo from the Fraser Valley Real Estate Board in B.C. warning managing brokers that offshore investors have been asking realtors to complete illegal transactions that would break AML and tax-evasion laws. “It has come to our attention that overseas clients may be asking realtors to allow money to be transferred to their personal accounts, so that the realtors can arrange a bank draft to give to the sellers/developers for their purchase,” the memo states. “It’s important everyone understands that this violates federal income-tax laws, FINTRAC laws and the Real Estate Services Act.”¹⁹⁸

Finally, the hot real estate market in B.C. is also seen as a factor contributing to an apparent uptick in money laundering; the value of real estate in Greater Vancouver has rapidly appreciated in recent years, making it particularly attractive and stable investment to a broad array of investors. Buying a home in the Lower Mainland is prohibitively expensive to most; but this is not an issue for the thousands of wealthy Chinese nationals – including corrupt government officials and those engaged in capital flight – who are drawn to Greater Vancouver’s real estate market as both a safe investment and as a desirable location for family members to live and to school.

6.2.3. Casinos

Casinos facilitate the exchange of cash for another asset, in particular, casino chips and/or a casino-issued cheque, while a winning lottery ticket purchased from a lucky winner with the proceeds of crime provides a launderer with a seemingly legitimate source for illicit funds.

In their 2009 report entitled *Money laundering typologies and trends in Canadian casinos*, FINTRAC analyzed 112 cases reported to them that included transactions in the casino sector that may have involved ML activity. The suspected sources for the illicit funds in almost half of these cases were drug trafficking, while the other half included fraud, loan sharking, theft, human trafficking, cigarette smuggling and corruption. Approximately 20 percent of the cases “involved organized crime, from street gangs, to outlaw motorcycle gangs, to traditional, transnational organized crime groups. While case disclosures involving organized crime groups related to a variety of predicate offences, the majority of case disclosures were associated with drug-related activity.”¹⁹⁹

How Casinos Satisfy ML Objectives / The Role that Casinos Play in Different ML Phases

Casinos can satisfy the goals of ML in two fundamental ways. First, it facilitates the conversion of cash proceeds of crime into another less suspicious asset. This less suspicious asset may simply be casino chips, but ultimately the goal is to convert the casino chips into another monetary instrument, in particular a casino-issued cheque. Second, the proceeds of crime can be claimed as legitimate casino winnings, thereby supplying a seemingly legitimate source of funds.

Most of the laundering at casinos satisfy the placement and extraction/repatriation stages; casinos are commonly used to place the cash proceeds of crime into the legitimate economy, which may be accompanied by structuring and smurfing. The minimal layering that can be accomplished through a casino includes cashing in chips for a casino-issued cheque, exchanging small denomination bills for larger ones (refining), exchanging currency, and using casino chips to purchase merchandise or monetary instruments outside the casino (“chip walking”). Casinos can satisfy the justification function

¹⁹⁸ Vancouver Sun, May 25, 2017, Valley board warns offshore clients seek to misuse realtor accounts

¹⁹⁹ Financial Transactions and Reports Analysis Centre of Canada, 2009b, 7

by claiming the proceeds of crime to be the winnings from gambling while the extraction/repatriation phase is accomplished when the launderer is able to cash in chips for cash or a cheque at the casino or use the chips to buy merchandise or a monetary instrument away from the casino.²⁰⁰

Services, Products, Assets, Instruments and Expertise Used

In its 2009 report entitled *Money laundering typologies and trends in Canadian casinos*, FINTRAC identified some common ML methods and techniques observed in case disclosures involving transactions at Canadian casinos.

Use of “Casino Value Instrument”

According to FINTRAC, “The most common casino value instruments are casino chips, issued in various denominations and used, in lieu of cash, for gaming transactions. Casino value instruments are used in the placement and layering phases of money laundering activity. Typically, illicit funds are placed when they are used to purchase casino chips, and then layered when after minimal play, the casino chips are redeemed for a casino cheque.”²⁰¹

An alternative to cashing in the chips at the casino is what is known as “chip walking,” which German defines as “the act of a patron exiting a casino with chips which they purchased.”

Chips have the advantage that their value equates with the current value of the dollar. In that regard, they are an alternate currency; preferred over precious metals that fluctuate in value and require appraisal, or cryptocurrencies which are not tied to a government currency. There are instances of chips being used as currency in drug trafficking. Our review of B.C. civil forfeiture cases revealed at least two cases in which casino chips appear to have been used as currency.”²⁰²

According to a January 2011 CBC News story, security staff at two Lower Mainland casinos “intercepted four attempted transfers of gaming chips worth \$1.6 million during a period of suspected money laundering at gambling establishments in the province...” Documents obtained from a Freedom of Information request “revealed that casino staff watched as about \$800,000 worth of chips changed hands in two incidents at the River Rock Casino in Richmond, B.C., in May 2010. Another two incidents, also involving a total of about \$800,000, were caught while underway at the Gateway Casino in Burnaby, B.C., in August, the documents show.”²⁰³ The issue emerged again in 2015 when Richmond’s River Rock Casino experienced an increase in gamblers leaving with large quantities of \$5,000 chips.²⁰⁴ According to CBC News, chip walking lends

²⁰⁰ Vancouver Sun, October 16, 2017, B.C. casinos knowingly accepted ‘banned’ cash: Confidential report; Vancouver Sun, March 13, 2018, Massive BCLC casino cheque payouts were mostly returned funds; Global News, Jan. 28 2019, Nearly \$2 billion in dirty money may have flowed through B.C casinos, far more than official estimates; Vancouver Sun, Sept. 29 2017, Exclusive: How B.C. casinos are used to launder millions in drug cash

²⁰¹ Financial Transactions and Reports Analysis Centre of Canada, 2009b, 8

²⁰² German, 2018, 182-183

²⁰³ CBC News, January 5, 2011, Casino chips ideal currency for criminals: RCMP

²⁰⁴ Vancouver Sun, Dec. 20, 2017, Documents point to \$5,000-chip problems at river rock casino

credence to police concerns “that chips are becoming a form of currency for people involved in organized crime.”²⁰⁵

The absconding chips can be used outside a casino for the purposes of layering, justification, and extraction/repatriation. For example, a launderer can take them to a jewellery store and buy two watches for \$35,000. The customer gives the store owner \$40,000 worth of casino chips in payment, explaining he had a big win at the casino, but because of a disagreement with the management he does not want to return. The merchant may not like receiving the chips as payment but is fearful of losing a big sale. The customer may entice the merchant by saying the sale is not final until the merchant cashes in all the chips. The mobster then either keeps the watches or sells them for a cheque, which is deposited into a bank account and claimed as legitimate revenue.²⁰⁶ A variation of this technique is to provide the chips to a merchant who is colluding with the launderer or, better yet, a conspiring money service business that redeems chips in return for a cashier’s cheque or bank draft. Regardless of whether the recipient of the chips is plotting with the launderer, the deal for the merchant or MSB is an attractive one in that the value of the chips would invariably be greater than the value of the merchandise sold or the monetary instrument provided. This technique works best in casino towns where buying goods and services with casino chips is common.

Refining

Refining at a casino typically involves a customer exchanging small denomination bills for larger denominations. In one suspicious transaction at casinos analyzed by FINTRAC in its 2009 report, a suspected nominee attempted to exchange smaller denomination banknotes for larger ones on behalf of a third party. An intermediary step in this process is to buy chips with small denomination bills and then cash out with a request for larger denominations. The Vancouver Sun reports on a June 2016 audit by the provincial Gaming and Policy Enforcement Branch which found that at the high-limit tables at the River Rock Casino in Richmond, VIP gamblers would buy chips with stacks of \$20 bills, play a few games, and then cash out with bundles of \$100 bills despite casino policies and procedures meant to block such transactions.²⁰⁷

Currency Exchange

Because casinos in Canada play host to thousands of foreign tourists every year, many offer currency exchange services. This service is attractive to offenders, “who may seek to convert currency obtained, for example, in crossborder drug transactions, in an effort to make the funds available for further use or to disguise their true source.” Under this scenario, American currency would be used to purchase chips at a Canadian casino and when cashing out Canadian bills would be requested. Refining activity may also occur in conjunction with currency exchanges at casinos. FINTRAC documented one instance in which “a customer attended a cashier window and exchanged a large amount of low denomination foreign currency bank notes for high denomination Canadian currency bank notes.”²⁰⁸

²⁰⁵ CBC News, January 5, 2011, Casino chips ideal currency for criminals: RCMP

²⁰⁶ National Post, Nov. 27, 1999, How to launder a million in eight easy steps

²⁰⁷ Vancouver Sun, Oct. 16, 2017, B.C. casinos knowingly accepted ‘banned’ cash: Confidential report

²⁰⁸ Financial Transactions and Reports Analysis Centre of Canada, 2009b, 10

Structuring

Examples of structuring at a casino include patrons making cash purchases of casino chips in amounts below the reporting threshold; patrons who exchange small denomination bills for large denomination bills, again in amounts below the reporting threshold; and a customer who uses multiple cashiers to cash out casino chips in return for a series of cheques, all in amounts below the \$10,000 reporting threshold.²⁰⁹

Front Money Accounts

A front money account at a casino allows customers to deposit money with the casino, which they can then draw upon for gaming purposes. Even though front money accounts are not available at all casinos across Canada, the use of such services featured significantly in STRs disclosed to FINTRAC, according to its 2009 report. To use a front money account to launder the proceeds of crime a casino patron will deposit cash, a cheque, or a bank draft to the account, purchase casino chips, and later redeem the chips for a casino-issued cheque.²¹⁰

Other ML Techniques Specific to this Sector

A 2019 FINTRAC report documents numerous other examples of transactions that have been deemed suspicious of ML or terrorist financing at casinos, some of which are:

- any casino transaction of \$3,000 or more when an individual receives payment in casino cheques made out to third parties or without a specified payee,
- client requests a winnings cheque in a third party's name,
- acquaintances bet against each other in even-money games and it appears that they are intentionally losing to one of the parties,
- client tries to avoid the filing of a report for cash by breaking up the transaction,
- client requests cheques that are not for gaming winnings,
- client enquires about opening an account with the casino and the ability to transfer the funds to other locations when the casino does not know the client as a regular,
- frequent or large volume player,
- client buys a large volume of chips with cash, takes part in limited gambling activity to create a perception of significant gambling, and then cashes the chips for a casino cheque,
- client puts money into slot machines and claims accumulated credits as a jackpot win,
- client exchanges small denomination banknotes for large denomination banknotes, chip purchase vouchers or cheques,
- client is known to use multiple names, and
- the client requests the transfer of winnings to the bank account of a third party or a known drug source country or to a country where there is no effective anti-money-laundering system.²¹¹

²⁰⁹ Financial Transactions and Reports Analysis Centre of Canada, 2009b, 10-11

²¹⁰ Financial Transactions and Reports Analysis Centre of Canada, 2009b, 11

²¹¹ Financial Transactions and Reports Analysis Centre of Canada. (2019). *Money laundering and terrorist financing indicators - casinos*. Ottawa: FINTRAC.

6.2.3.1. Money Laundering at British Columbia Casinos

While it had long been understood that casinos are highly vulnerable to ML, it was not until around 2008 that police, the news media, regulators, and government authorities began to recognize this problem may be growing at B.C. casinos.

On May 21, 2008, CBC News reported that the BCLC, the provincial agency mandated to oversee AML compliance at casinos, had been under-reporting suspected money laundering at the province's casinos for years. The CBC cited unnamed "documents" showing that in 2003 casino workers routinely observed dozens of suspicious financial transactions each year, but only a fraction was reported to the BCLC or FINTRAC. "Players can feed thousands of dollars in \$20 bills into slot machines and cash out after playing only once or twice, walking away with a casino cheque for the remaining amount," the article alleged.²¹²

Another CBC News article that years reported on the presence of loan sharks around B.C. casinos. It cited documents obtained from the provincial GPEB concerning 33 cases of suspected loan sharking that were reported around B.C.'s casinos from 2002 to 2004. The documents "outline thousands of incidents of suspicious activities and large cash transactions in casinos, including allegations of loan sharking, ML and fraud," according to the CBC.

One man borrowed a staggering \$110,000 from a loan shark at a B.C. casino, only to be forcefully thrown into a vehicle a few hours later, and told he owed \$130,000. He paid the debt but went to authorities for protection. The documents also show Rong Lily "Lilly" Lee, a suspected loan shark, was last seen alive outside Richmond's River Rock Casino in 2006. Police say she was the victim of a kidnapping and targeted hit.²¹³

In September 2011, CBC News reported on a Vancouver casino worker who alleged loan sharks were operating inside the Edgewater Casino. The people identified as loan sharks don't openly operate on the gaming floor, however. "Instead, they sometimes hang out in the casino's high limit room where huge bets are made, or on the smoking patios or in bathrooms, away from surveillance cameras, he believes."²¹⁴

Although it may not have been apparent at the time, but the loan sharks mentioned in the articles may have been part of what would allegedly become a cornerstone of the Vancouver Model; lending small denomination cash from drug sales to gamblers who in return would launder the funds through the casino.

The issue became topical again in January 2011 when suspicions arose that a sophisticated scheme to launder money from the drug trade was behind many millions of dollars flowing through two B.C. casinos starting in the spring of 2010. Based on documents obtained from a Freedom of Information request to the provincial government, the CBC reported that two casinos apparently told the BCLC in late 2010 of a multimillion-dollar spike in suspicious transactions, although police were not informed. According to CBC News,

²¹² CBC News, May 21, 2008, Suspected money laundering at B.C. casinos under-reported, CBC probe reveals; CBC News, May 23, 2008, Criminals target B.C. casinos and other cash businesses, police say

²¹³ CBC News, May 24, 2008, Suspected loan sharks operating around B.C. casinos, documents say

²¹⁴ CBC News, September 21, 2011, Loan sharks overlooked by Vancouver casino, alleges worker

In one instance in May, a man entered the Starlight Casino in New Westminster carrying chips worth \$1.2 million and immediately had casino staff convert the chips to cash. And after stuffing the money into a suitcase, the man said he was about to catch a plane and was concerned about questions from airport security about such a large amount of currency. He requested and was given a letter from the staff confirming the money was a casino payout, the documents said. The casino characterized the large transaction as “unusual activity” in its report to the B.C. Lottery Corporation. In another incident days later, a man entered the River Rock Casino in Richmond and bought gambling chips with \$460,000 in \$20 bills. The casino report on the incident noted that “none of [the man's] actions are suspicious.” Over the next three months, staff at both casinos reported a combined total of \$8 million in 90 large cash transactions, an average of one a day.²¹⁵

Fast forward to October 2014 in which a CBC News review of unspecified provincial government documents discovered that over the course of three months of that year, almost \$27 million in suspicious cash was reported at two B.C. casinos (\$2.5 million at New Westminster's Starlight Casino, and \$24 million at Richmond's River Rock Casino). “Most of the mystery money that came in from mid-March to mid-June arrived in bundles of \$20 bills — a common currency used to buy street drugs.” In reporting on the documents, the CBC also noted that “in some cases, people arrived with shopping bags and suitcases packed full of bills in \$20 and \$50 denominations. One person brought in \$800,000 in twenties. Another showed up one day with \$1.1 million in cash.”²¹⁶

The suspected use of casinos to launder the proceeds of crime was again made public in October of 2015 when the RCMP pulled over a driver in a Chilliwack casino parking lot on suspicion of impaired driving. When police searched him they found \$3,775 in cash. The man also produced a cheque for \$13,250 from the Lake City Casino in Kelowna. Citing court documents, the Province newspaper described what happened next.

Police searched the car and found \$10,535 in cash in the centre console, two more cheques on the floor from the Lake City Casino in the amounts of \$9,005 and \$6,830, and a roll of 100 \$20 bills bundled together with a rubber band in the trunk. Police later executed a search warrant on the vehicle and found \$24,405 in cash under a stereo amplifier in the trunk, several large rocks of crack cocaine and a bottle of 40-50 pills hidden under the driver's console, a flap containing 19 yellow pills under the driver's carpet and illegal radar-detection equipment. A narcotics-sniffing dog found drug residue on the money.²¹⁷

The driver claimed the money was part of more than \$300,000 he had won playing slot machines at various B.C. casinos. Upon further investigation, police learned that the man had reportedly been paid out more than \$2 million by B.C. casinos between November 2014 and October 2015. Government officials immediately accused the man of being part of a massive drug ML operation and the provincial Civil Forfeiture Office launched a lawsuit to force him to forfeit the money. The man, who operated a

²¹⁵ CBC News, January 4, 2011, 'Dirty money' suspected in B.C. casino deals

²¹⁶ CBC News, October 16, 2014, \$27M in suspicious money flowed through 2 B.C. casinos in 3 months

²¹⁷ The Province, April 2, 2016, He was paid out more than \$2 million by B.C. casinos last year, and insists he's just 'lucky'

small landscaping business at the time, denied the money was the proceeds of drug trafficking and says he just got lucky when playing the slot machines.²¹⁸

By 2015, an RCMP investigation called Project E-Pirate began shedding more light into an alleged multi-faceted ML conspiracy, eventually referred to as the Vancouver Model, which included laundering the proceeds of drug trafficking through casinos by lending VIP gamblers illicit cash (mostly \$20 bills) that they ultimately converted to less suspicious assets, including casino-issued cheques and higher denomination banknotes.

In 2018, the Vancouver Sun reported on speculation that laundering through casinos in B.C. involved the deposit of large-value cheques into a casino's "non-cash patron gaming fund accounts." The patron then requests a cash-out by cheque without "an expected level" of gambling.²¹⁹ The next year, a Global News story said, "Regulators believe organized crime loan sharks and Chinese high-rollers are now using more sophisticated channels to launder cash into bank drafts and through B.C. Lottery Corp. patron gaming fund accounts."

According to the Lottery Corp., the new non-cash accounts were supposed to be funded with wire transfers and bank drafts run through reputable financial institutions. The idea was to reduce the prevalence of bulk cash transactions in Vancouver casinos and establish an audit trail that would discourage money launderers.

But according to audit documents, the patron gaming accounts were mostly funded with bank drafts, and often these drafts were suspicious.

There were "concerns around money services businesses," and patrons "bringing in bank drafts from multiple different banks."

Other problems included anonymous "third-party" gamblers using "nominees" — meaning stand-in buyers — to fund patron gaming accounts. And these nominees were "bringing in bank drafts that do not have the bank customer/account holder name on it."²²⁰

According to Global News, provincial GPEB documents estimated that \$1.7 billion in funds flowed through the non-cash accounts from 2013 to 2017, much of the deposits being in the form of bank drafts. The same documents indicate that the top ten Chinese gamblers accounted for almost half of the \$1.7 billion that flowed through accounts from 2013 to 2017.²²¹ And most of these funds were never even used for gambling. As the Vancouver Sun reported, "The majority of big-money cheques issued to

²¹⁸ The Province, April 2, 2016, He was paid out more than \$2 million by B.C. casinos last year, and insists he's just 'lucky'; The Province, April 4, 2016, Does the B.C. gov't care more about casino cash than casino crime?; The Province, April 7, 2016, Is B.C. a laundromat for criminals' dirty money?; Maple Ridge and Pitt Meadows Times, April 11, 2016, B.C. launches casino gambling crime team

²¹⁹ Vancouver Sun, March 13, 2018, Massive BCLC casino cheque payouts were mostly returned funds

²²⁰ Global News, Jan. 28, 2019, Nearly \$2 billion in dirty money may have flowed through B.C. casinos, far more than official estimates

²²¹ Global News, January 28, 2019, Nearly \$2 billion in dirty money may have flowed through B.C. casinos, far more than official estimates

B.C. Lottery Corp. high-rollers in 2016, including a \$2.4 million return of funds, were not for gambling wins...”²²²

In response to the accusations that it was issuing cheques that facilitated money laundering, the BCLC has stated that its policy is to clearly mark and track all payments by casino cheque by delineating between those that are designated “Return of Gaming Funds – Not Gaming Winnings” and those that represent a payout of a “Verified Win.” This delineation is “to make clear whether the funds are simply the return of the customer’s buy-in funds or the funds were acquired through gambling win(s).” BCLC also has policies and controls that prohibit “the issuance of cheques for the return of initial buy-in funds for any amount over \$10,000.”²²³ BCLC commissioned Ernst & Young LLP Canada “to perform an analysis of cheques and patterns of play pertaining to a set of defined money-laundering typologies at River Rock Casino Resort during a three-year period from January 1, 2014 to December 31, 2016.” The goal was to determine “if there were instances when anti-money laundering controls had been compromised.” Based upon an analysis of 2,031 cheques of \$10,000 or more issued by the BCLC, E&Y found only 49 cheques (2.4%) “had exceptions related to the issuance control procedures in place” and that these “exceptions were the results of errors made by River Rock Casino.” This led BCLC to conclude that it “is satisfied that there was no systemic pattern of money-laundering activity related to cheques being issued by River Rock Casino during the three-year period of 2014 to 2016.”²²⁴ Despite this conclusion the methodology of the audit may be flawed in that it only examined cheques for more than \$10,000; as such, it omits instances where gamblers may have requested (and been issued) cheques for under \$10,000 expressly to circumvent FINTRAC reporting requirements, a common money laundering technique known as structuring.

Discussion and Analysis: Factors that put B.C. Casinos at Risk of Money Laundering

In his 2018 *Dirty Money* report, German concludes that “for many years, certain Lower Mainland casinos unwittingly served as laundromats for the proceeds of organized crime.”²²⁵ Lower Mainland casinos are said to be at particular risk to ML in recent years due to alleged money laundering conspiracy coordinated by Jin and Silver Investments International. The casinos and BCLC have also been accused of increasing the risk by catering to high-rolling VIP Chinese gamblers that facilitated the ML at the casinos. This included raising betting limits, expanding VIP lounges for high rollers, accepting large amounts of \$20 bills to purchase chips, converting this cash into cashier’s cheques or larger denominations, and setting up patron accounts and allowing gamblers to use these accounts under suspicious circumstances.²²⁶

²²² Vancouver Sun, March 13, 2018, Massive BCLC casino cheque payouts were mostly returned funds

²²³ Preface from BCLC entitled “Assessment of AML Controls at River Rock Casino: Analysis of Cheques Issued 2014-2016” in Ernst and Young LLP Canada. (2019). *River Rock Casino Report: Verified Win, Return of Funds and Convenience Cheque Analysis*. Vancouver: E&Y LLP Canada.

²²⁴ BCLC preface in Ernst and Young LLP Canada, 2019.

²²⁵ German, 2018, 10

²²⁶ German, 2018, 106; Global News, March 26, 2019, B.C. Liberal minister intervened to raise betting limits, ignoring money laundering warnings about Chinese VIPs; CBC News, February 23, 2012, B.C. casinos rapped for not checking patrons' backgrounds; Realmoneygambling.ca, May 27, 2019, BCLC approved high limit baccarat tables at River Rock Casino amidst revelations of money-laundering

Accusations have also been made that suspicious transactions and allegations of ML have been ignored by the casinos, regulators and public officials in B.C. The River Rock Casino in Richmond has been accused of not sufficiently checking the backgrounds of patrons bringing in large amounts of cash and for not regularly documenting suspicious transactions. CBC News also reported that the GPEB audit of the Grand Villa Casino in Burnaby found that out of a sample of 27 large cash transactions in one month, nine records contained "insufficient detail."²²⁷

The Liberal Government in B.C., in power from 2001 to 2017, has been criticized for not only ignoring the ML problem in B.C. casinos but enflaming it. As Global News reported in March 2019, "Despite money laundering concerns from the province's gambling regulator, officials in B.C.'s finance ministry intervened to allow B.C. Lottery Corp. to raise high-roller betting limits to \$100,000 per hand in time for Chinese New Year visits." In fact, since 2010, the provincial Gaming Policy and Enforcement Branch had warned the BCLC to limit massive cash transactions involving Chinese VIPs at private baccarat tables. But instead, BCLC "repeatedly raised baccarat limits, from \$5,000 per hand to \$100,000. And they refused to implement the regulator's suggested "remedy" of capping VIP buy-ins with \$20 bills — the denomination associated most with drug trafficking — to under \$10,000." This decree was made at the political level by then-finance minister Mike de Jong who said in B.C.'s legislature that the controversial "senior-level intervention" was "in the public interest" to maximize casino revenue.²²⁸ In another example of high-level political intervention by the Liberal Government, Global News reported a businessman "connected to Asian organized crime" was allowed by a provincial government employee to buy part of a BCLC casino, according to a confidential RCMP report.

That government employee was later hired in a B.C. casino. The explosive accusation is just one example of organized crime's alleged infiltration and corruption of B.C. government casinos, according to a January 2009 RCMP anti-illegal gaming unit report. The report argued the RCMP anti-illegal gaming unit should target the drug cartels using BCLC casinos, in combination with illegal casinos, to launder money. But three months later, instead of following the report's recommendations, B.C.'s government defunded and disbanded the illegal gaming unit.²²⁹

6.2.4. Motor Vehicles

Cars and other vehicles are a frequent destination for the proceeds of crime. In his 2004 quantitative study examining RCMP proceeds of crime case files, Schneider found that cars and other motor vehicles were purchased with the proceeds of crime in 89 of the 149 (57.6%) cases included in the study. The research found that, generally speaking, motor vehicles were purchased with the proceeds of crime for personal use by the offender, although in some cases they are also used as a conveyance to transport drugs.²³⁰ In October 2014, the British Columbia Civil Forfeiture Office announced that in the previous

²²⁷ German, 2018; CBC News, February 23, 2012, B.C. casinos rapped for not checking patrons' backgrounds; CBC News, June 27, 2018, B.C. casinos 'unwittingly served as laundromats' for proceeds of crime: report

²²⁸ Global News, March 26, 2019, B.C. Liberal minister intervened to raise betting limits, ignoring money laundering warnings about Chinese VIPs

²²⁹ Global News, Jan. 16, 2020, BC Liberals to turn over money laundering-related cabinet documents, but there's a catch

²³⁰ Schneider, 2004, 58

eight years, “approximately 250 vehicles had been forfeited, most with links to drugs, gangs or organized crime...”²³¹

How Motor Vehicles Satisfy ML Objectives (Why it is Vulnerable to ML)

A 2018 report on ML from the House of Commons Standing Committee on Finance, recounts how the Government of B.C. “identified the auto sector as a high-risk area, as Vancouver has among the highest number of ‘super cars’ in North America and auto dealers in Greater Vancouver are among the highest new and used luxury car dealers in Canada by sales volume. They also believe that the criminal lifestyle is often attracted to expensive consumer goods such as luxury cars and pleasure crafts, and such goods are excellent ways in which illegal cash can be reintroduced into the economy.”²³²

These conclusions are echoed in the 2019 *Dirty Money* report submitted to the B.C government by German, who succinctly states, “Vehicles are used both within Canada and internationally as conduits for the laundering of criminal proceeds.” The report also observes that the purchase or lease of cars with illicit funds is mostly for personal use, which includes satisfying a stereotypically ostentatious criminal lifestyle that includes flaunting expensive cars. “Many criminals are attracted to a lifestyle of luxury and consumptive wealth, in which they invest their profits of crime. Luxury vehicles are an example.”²³³ A doctoral dissertation studying the gang member lifestyle in B.C. led the author, who travelled internationally as part of his research, to write, “In none of the places that I visited did I see the same level of wealth on display by gang members that I have observed in B.C.”²³⁴

In a 2008 article, Kim Bolan quotes a Vancouver police inspector who says that the local gang task force he supervises are stopping gang members and drug dealers in their “expensive rides, often modified with bullet-proof Kevlar and secret gun compartments.”²³⁵ The heavy armour requested for the already-expensive cars suggests they are purchased (and modified) not just for bravado but for the more functional purpose of security (although the security measures may also be seen as a further reflection of the gang members’ bluster).

Case Studies

In February 2009, police seized a fully armoured luxury car leased by the Bacon brothers (Jamie, Jarrod and Jonathan), who are well known to law enforcement officials as leaders of the Red Scorpion gang. The black BMW 745i, which weighs more than a one-ton truck and was fitted out with heavy steel plating and bulletproof glass that was nearly four centimetres thick. The car was leased to the Bacon

²³¹ Global News, Oct. 7, 2014, More forfeited gangster vehicles to end up in hands of police

²³² Standing Committee on Finance, House of Commons, Canada (42nd Parliament, 1st Session). (2018). *Confronting money laundering and terrorist financing: Moving Canada forward. Report of the Standing Committee on Finance*. Ottawa: Parliament of Canada, House of Commons

²³³ German, 2019, 176

²³⁴ McConnell, K. (2015). *The Construction of the Gang in British Columbia: Mafioso, Gangster, or Thug? An Examination of the Uniqueness of the BC Gangster Phenomenon*, Doctoral dissertation submitted in partial fulfilment of the requirements for the degree of Doctor of Policing, Security and Community Safety, London Metropolitan University, 172

²³⁵ Vancouver Sun, Oct. 25, 2008, Gangsters find rides at four star auto lease

brothers by Four Star Auto Lease in Coquitlam, which had leased several vehicles to them and their associates. In May of 2008, B.C.'s Integrated Gang Task Force issued a public warning that the brothers had been targets of death threats, and that association with them might place individuals "in a position of jeopardy." CBC News noted that Jamie Bacon had been shot at the previous month while driving his armoured Mercedes Benz.²³⁶

&&&

In August 2018, a multi-agency police task force investigation into gang activity in Greater Vancouver arrested members of the "Kang/Latimer Group," charging 14 people with 92 criminal offences. As part of the bust, police seized 93 firearms, an improvised explosive device, 59 prohibited devices, 9.5 kilograms of fentanyl, almost 40 kilograms of other illicit drugs, \$833,000 in cash, \$800,000 in jewellery, and \$350,000 in collector cars, all of which became the subject of civil forfeiture proceedings.²³⁷ The next week, the Delta Police Department announced additional drug trafficking and weapons charges against seven men linked to the Red Scorpion gang. Among the assets seized as proceeds of crime from Latimer were \$82,000 in cash and four luxury vehicles.²³⁸

The Role the Motor Vehicle Market Plays in Different ML Phases

Because cars are usually bought for personal reasons (including vanity and security) and not part of a concerted effort to launder illicit funds, the three-phase process of ML may not be as applicable to the auto sector compared to other sectors.

There is not much evidence that the purchase of cars with the proceeds of crime is preceded by an intricate laundering process; motor vehicles are frequently bought with drug cash and there are minimal attempts to convert the cash to a monetary instrument first. As such, the purchase of motor vehicles often takes place during the placement stage (although as described below a limited number of techniques used in conjunction with the purchase of cars may be considered layering).

German recounts how police and auto dealers he interviewed identified several cases in which offenders purchased or leased expensive vehicles in Greater Vancouver using cash. One car dealer in Vancouver who described how large cash sales occur on a monthly basis. In one case, a young male customer bought a vehicle for over \$200,000 in cash. An employee of the dealership candidly admitted, "I'm right in the thick of money laundering here."²³⁹

Another car dealer reported that physical cash transactions are not that common anymore; instead, payments are made through wire transfers (from China). Customers in B.C. have also bought cars from

²³⁶ CBC News, Feb. 27, 2009, Police holding armoured car belonging to Bacon brothers

²³⁷ Vancouver Police Department News Release, August 10, 2018, Joint Forces Police Operation Brings Down Major Crime Groups; Vancouver Sun, Aug. 18, 2018, Police probe leads to dozens of charges against Red Scorpion, Kang gangsters

²³⁸ Vancouver Sun, Aug. 15, 2018, Delta Police announce more charges against Red Scorpions

²³⁹ German, 2019, 184

dealerships using WeChat Pay – a popular payment feature in Asia that is integrated into the WeChat app, in which users can pay for purchases through smartphones.²⁴⁰

Money Laundering Techniques Used with Motor Vehicles

Schneider's analysis of proceeds of crime police cases reveals three basic ML techniques that are used in conjunction with the purchase of motor vehicles (all of which can be considered a form of layering). The first involves registering ownership and insurance of a motor vehicle in the name of nominees. The second is buying a car with the cash proceeds of crime and then quickly re-selling it, obtaining a cheque or bank draft in return. The third is under-invoicing (described below).²⁴¹

Using an Auto Dealer to Exchange Cash for a Monetary Instrument

German describes a ML scheme reported by a new car dealer and confirmed by police in which the customer uses the dealership to convert cash for a less suspicious cheque.

The suspect attends a dealership to test drive a vehicle. He then makes a large cash deposit ranging from \$10,000 to \$25,000 to hold a vehicle for a possible sale and advises that he will come back the next day to discuss and finalize the sale. The suspect returns the next day and claims he "changed his mind" about purchasing the vehicle. He requests the return of his deposit. Since the dealership has already deposited the cash in its bank, it issues a cheque to refund the deposit. The owner of one dealership advised that he only became aware of this being a money laundering scam because he recognized the same name on refund cheques issued from four different dealerships.

The same technique can incorporate a structuring (smurfing) strategy to help launder a large amount of cash while minimizing suspicion.

A police investigator advised us that the same scheme also occurs through groups of straw buyers organized by a drug trafficker. For example, a drug trafficker seeking to launder money will hire ten, low-level criminals at a cost of a few hundred dollars each, or as payment for a drug debt. Each will go to a dealership and make a \$9,500 cash deposit on a vehicle, then return a few days later once the cash has been deposited and advise the dealer that he or she has changed their mind. The deposit will be returned by cheque, effectively laundering the drug trafficker's \$95,000 at very little cost.²⁴²

Auto Leasing

Instead of buying a car outright, a lease may be negotiated. This helps avoid suspicions associated with a large cash payment and also limits the amount of equity an offender has in a vehicle in the event that it is forfeited to the government.²⁴³

²⁴⁰ German, 2019, 186

²⁴¹ Schneider, 2004, 58

²⁴² German, 2019, 188-189

²⁴³ Schneider, 2004, 58

In October 2008, the *Vancouver Sun* reported that a lot in Coquitlam, B.C. leased more than a dozen high-end cars to leaders of the United Nations gang and to an accused drug trafficker. The story notes that “police and regulators say many gangsters are leasing cars as an easy way to unload some of their illicit cash on big-ticket luxury vehicles” and to “more easily avoid having vehicles seized by the government” under civil forfeiture.²⁴⁴

In short, leasing a car may be less about ML and more about avoiding losing one’s financial investment.

6.2.5. Money Service Businesses

Money service businesses provide currency transfer and exchange services; that is, people generally use MSBs to transfer funds, exchange currency, or to purchase or redeem negotiable instruments. For FINTRAC, an MSB is an individual or an entity engaged in the business of any of the following activities: “foreign exchange dealing; remitting or transmitting funds by any means or through any individual, entity or electronic funds transfer network; and/or issuing or redeeming money orders, traveller’s cheques or other similar negotiable instruments.”

FINTRAC recognizes that there is great diversity within the almost 1,000 registered MSBs which constitute the sector in Canada. This diversity is the result of a wide range of business sizes and business models, and a result of the variety of services available at different MSBs and the communities they serve. The MSB sector includes everything from large multinational companies with thousands of employees, branches, and thousands of franchised agents, who collectively carry out hundreds of millions of dollars worth of transactions, to very small independent businesses, with no employees beyond the owner, and which are engaged in very low volumes of transactions.²⁴⁵

How MSBs Satisfy ML Objectives / The Role MSBs Play in Different ML Phases / Services, Products, Assets, Instruments and Expertise Used

The vulnerability of MSBs to ML is obvious: they are in the business of providing services highly conducive to cleaning dirty money. MSBs are attractive to criminal entrepreneurs because they can potentially satisfy all the phases of the ML process. First and foremost, they are in the business of accepting cash, which can be converted to larger denominations, other currencies, or monetary instruments. As such, MSBs can be effectively used during the placement stage and, therefore constitute a portal for the entry of the illicit cash into the legitimate economy.

The same services can be used to expedite layering; bank drafts can be issued in the names of nominees and then deposited in bank accounts. Wire transfers can be sent abroad to offshore financial havens or drug source countries. All the while, MSBs can serve as an intermediary between the launderer and other sectors and professionals (banks, securities, real estate, lawyers) that are used in layering and other phases. The extraction/repatriation phase is satisfied when the ultimate destination of a bank draft or wire transfer is the criminal offender laundering the cash. MSBs are also popular laundering

²⁴⁴ Vancouver Sun, Oct. 25, 2008, Gangsters find rides at four star auto lease

²⁴⁵ Financial Transactions and Reports Analysis Centre of Canada. (2010). *Money laundering and terrorist financing (ML/TF) typologies and trends for Canadian money services businesses (MSBs)*. Ottawa: FINTRAC, 2, 3

vehicles because, relative to banks, they are less regulated than banking institutions and generally apply less scrutiny to large cash or suspicious transactions.

ML Techniques Specific to This Sector

Of the 149 proceeds of crime cases included in Schneider's survey, 26 (17.4%) involved the use of an MSB (this total includes at least 10 cases in which an offender used the services of a police-operated undercover currency exchange in Montreal or Vancouver). In 21 of these cases (81%), the proceeds of crime were introduced as cash. In some cases, smurfs were used to transport small amounts of cash to an MSB. The most frequent transaction performed was the conversion of currency: in 20 of the 26 cases (73.7%), the client requested that cash be exchanged from one currency to another. Converting Canadian to American currency was the most frequent currency exchange transaction. Other services used included wire transfers, denomination exchange, purchasing a monetary instrument, cashing a cheque, and (attempting) the purchase of gold coins.²⁴⁶

Recognizing the attractions of an MSB for ML, the RCMP-led Integrated Proceeds of Crime (IPOC) Units in Montreal and Vancouver established their own retail storefront operation during the 1990s. These undercover sting operations actively recruited drug traffickers and their illegal finances (and were so successful that among those arrested and charged included members and associates of the Montreal Mafia and the Hells Angels). In a report to Crown Counsel, the Vancouver IPOC Unit outlined some potential indications that a client is laundering the proceeds of crime. The report recommends that suspicions should be raised if a customer:

- trades just under the (CDN)\$10,000 reporting threshold
- brings in money in a suspicious manner (e.g., all small bills, money carried in a brown paper bag or other unorthodox packaging),
- brings in cash that has a strange smell (if U.S. dollars, it may smell like marijuana; if Canadian currency, it may smell like mothballs),
- arrives with several packets of money, each in pre-counted amounts, but only trades one bundle (the others are being saved to be exchanged elsewhere),
- asks if it is possible to exchange larger - sometimes much larger - amounts of cash in the future,
- conducts multiple transactions, sometimes over the course of one day, or requests to conduct several smaller transactions in lieu of one large transaction,
- says he is conducting the transaction for an unnamed third person,
- acts suspiciously (e.g., looks nervous, watches the door, won't carry on a conversation),
- questions whether the staff of the currency exchange are police,
- demonstrates a comprehensive knowledge about currency exchange rates, or attempts to obtain a better rate of exchange, and/or
- talks about converting currency as a regular line of business²⁴⁷

²⁴⁶ Schneider, 2004, 45

²⁴⁷ Schneider, 2004, 44-45

Case Study

In December 1992, Joel David Williams began converting large sums of U.S. dollars to Canadian currency at a Vancouver currency exchange business. Over the next six months, Williams, as well as two associates, visited the currency exchange business on more than a dozen occasions, exchanging (US) \$278,953 into (CDN) \$445,590. By his fifth visit, Williams admitted that the cash was from the sale of high-grade B.C. marijuana in the United States. In general, Williams entered the store with American twenty-dollar bills and usually left with Canadian one thousand-dollar bills. Williams volunteered to one employee why he favoured currency exchange companies in his laundering activities: the volume of twenty-dollar bills was hard to explain to banks and he “had to be extremely careful when dealing with them.” Williams stated that he preferred one thousand-dollar bills because “they are easier to carry.” The American currency was often brought into the store in a very suspicious manner and, on many occasions, Williams was unsure of the amount of money in his possession. It was not uncommon for Williams to pull thousands of dollars out of his pants or coat pocket (almost \$23,000 on one occasion) or from a gym bag (\$57,300 on another occasion). Over a four-month period he produced \$288,178 in small bills at the MSB.

To avoid suspicion associated with laundering money at legitimate MSBs, offenders have founded their own currency exchange companies, which benefits the laundering process in numerous ways.

Case Studies

One night in April 2016, a wealthy North York currency exchange owner named Farzam Mehdizadeh was pulled over by the OPP at the request of the RCMP, who had the man under investigation. When the car was searched, police found in the trunk a black hockey bag allegedly concealed 50 stacks of cash and a blue backpack that held another 21 stacks. Pictures filed in RCMP evidence showed there was also a leather travel bag holding another 37 stacks of cash. As Global News reported,

Police seized Mehdizadeh’s car and the cash, and several days later, executed search warrants at Mehdizadeh’s Yonge Street currency exchange shop and his \$4.8-million York Mills mansion.

The evidence they seized would allegedly reveal a global underground banking network – apparently legitimate accounting books and a second set of secret accounting books – plus wire transfers, bank drafts, and loans involving both major Canadian banks and also some shady currency trading shops.

And among the items seized from Mehdizadeh’s office – according to an RCMP evidence affidavit – were nine Ontario driver’s licences, and a brick of \$20s wrapped in elastic bands and attached to a white bank envelope, with a \$14,000 bank draft from a major Canadian bank tucked inside.

Eventually, Mehdizadeh would be accused of laundering \$100 million in just one year in Toronto and Montreal and would be facing 16 criminal charges, including laundering drug money, tax evasion, and possessing proceeds of crime.

But the RCMP believed he was just one suspect in a very large group of underground bankers, active in Toronto and Montreal especially, with links to real-estate money laundering. And they were believed to be connected to the upper echelons of Middle East organized crime and terrorism financing, according to a senior former DEA investigator interviewed by Global News.

The evidence seized would connect Mehdizadeh to Altaf Khanani – an alleged mastermind underground banker and money launderer who moved up to \$16 billion per year for global crime groups, with alleged links to Hezbollah and other terrorist groups that are now blurring into transnational organized crime networks, according to the DEA.²⁴⁸

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The RCMP estimated that Gary Hendin, a lawyer for some members of an Ontario-based organized crime syndicate laundered around (CDN)\$12 million in drug money during the late 1970s and early 1980s. One company he founded that would become a central conduit through which large amounts of cash would be laundered was M&M Currency Exchange. By setting up bank accounts in the name of the currency exchange business, Hendin maintained a legitimate pretence for many sizable deposits of cash, much of which was small denominations of Canadian currency that had been derived directly from drug trafficking. The very nature of the currency exchange business, combined with Hendin's upstanding reputation in the community, ensured these large cash deposits avoided suspicion and scrutiny. In addition, using a currency exchange company accorded Hendin the opportunity to buy large amounts of American cash under a seemingly justifiable visage. (The American cash purchased through banks was eventually used to buy drugs.) During 1979 and 1980, Hendin purchased close to \$9 million in American currency from one bank in Buffalo. The majority of the Canadian cash used were drawn from an account in the name of M & M Currency Exchange at a Canadian bank branch in St. Catherines, Ontario.²⁴⁹

FINTRAC analyzed 197 cases that involved suspicious transactions at an MSB in 2008 and 2009. The goal of the report is to provide a foundation to better understand common ML methods and techniques used by MSBs. The following summarizes some of the common ML methods and techniques, as well as MSB services used, for suspected ML and TF purposes.

Structuring and smurfing (attempting to circumvent MSB reporting requirements)

Structuring is by far the most prevalent ML technique observed in FINTRAC cases at MSBs. In one suspected drug trafficking case, the client made several dozen separate money order purchases with cash, seemingly to structure them below the \$10,000 reporting threshold. In another case, "members of an organized crime group appeared to have used several individuals to send funds through an MSB to

²⁴⁸ Global News, Feb. 28, 2019, Toronto man arrested with \$1M in cash may have ties to international money launderer

²⁴⁹ Beare, M.E. and Schneider, S. (1990). *Tracing of Illicit Funds: Money Laundering in Canada*. Ottawa: Solicitor General Canada: pp. 317-318

the same individual in the United States. In this particular case, the first smurf was followed 20 minutes later by a second smurf (a different individual) at the same MSB, who proceeded to send an EFT to the same beneficiary in the United States.”

Exploiting negotiable instruments

According to FINTRAC, “The types of negotiable instruments which were found to be relevant to various patterns of ML/TF activity within the MSB sector included the issuance of cheques by the MSB (in lieu of cash, etc.), the issuance of bank drafts made payable to an MSB, and money orders.” In a suspected drug case, an individual purchased multiple, non-sequential money orders (payable to himself) in a possible attempt to obscure the client’s connection to a suspected drug trafficker.

Refining (converting small denomination banknotes to larger denominations)

In one case involving suspected drug proceeds, an MSB client exchanged (US)\$8,000 in American twenty-dollar banknotes into larger denominations. This individual used the MSB in a regular pattern of activity, including transactions on consecutive days, always using American twenty-dollar banknotes.²⁵⁰

Finally, the FINTRAC report gives some indicators of money laundering based on atypical transactions at an MSB:

- A series of complicated transfers of funds that seems to be an attempt to hide the source and intended use of the funds,
- the transaction is unnecessarily complex for its stated purpose,
- a customer presents cash or financial instruments that are packed, transported or wrapped in an uncommon way,
- the customer's transactions have no apparent business or economic purpose,
- the transaction involves a suspected shell entity,
- the customer frequently exchanges small bills for larger bills, and
- suspicious pattern emerges from the customer's transactions (e.g. transactions take place at the same time of day).²⁵¹

Case Study

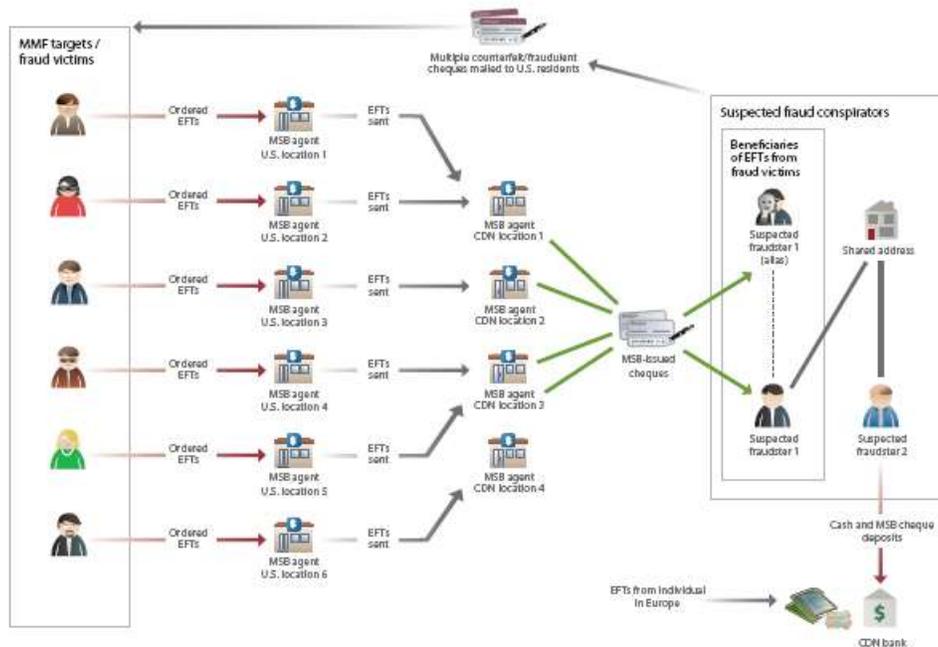
Law enforcement provided information on two individuals who were suspected of running a mass marketing fraud (MMF) scheme. Counterfeit cheques were sent to U.S. residents, who were then instructed to send a portion of these funds, via electronic fund transfers, back to the two offenders perpetrating the fraud. In this scheme, the perpetrators used MSBs to receive the RFT payments from the fraud victims. One of the offenders, the main recipient of the EFTs, appeared to have used multiple MSB firms (and close to twenty locations) in an attempt to obscure the fraudulent activity in part by structuring the number of ETFs received at one MSB. The funds received through the EFTs were paid out to the offender in cheques issued by the MSB which were then deposited into two different bank

²⁵⁰ Financial Transactions and Reports Analysis Centre of Canada, 2010, 5-6

²⁵¹ Financial Transactions and Reports Analysis Centre of Canada, 2010.

accounts. The man also made multiple cash deposits into the bank accounts.²⁵² The basic processes and transactions of this fraud-based ML scheme using MSBs are depicted in Figure 4.

Figure 4: Case Study of MSBs Use to Launder the Proceeds of an MMF fraud



Source: Financial Transactions and Reports Analysis Centre of Canada. (2010). *Money laundering and terrorist financing (ML/TF) typologies and trends for Canadian money services businesses (MSBs)*. Ottawa: FINTRAC, 7.

6.2.6. Securities (Capital Markets)

The Canadian capital markets have long been victimized by organized crime.²⁵³ During the 1950s, Hamilton’s John Papalia – who was a member of the Buffalo-based Magaddino Mafia family – extorted money and insider information from securities brokers.²⁵⁴ From the 1950s to the early 1970s, crime groups in Canada masterminded schemes to steal millions of dollars worth of securities certificates.²⁵⁵ The capital markets are also susceptible to manipulation and fraud by criminal organizations. William

²⁵² Financial Transactions and Reports Analysis Centre of Canada, 2010, 7-8

²⁵³ British Columbia. Coordinated Law Enforcement Unit. 1974. *Initial report on organized crime in British Columbia*. Victoria, B.C.: Coordinated Law Enforcement Unit, Ministry of the Attorney-General; *Vancouver Sun*, Jan. 27, 1993, Money laundering probed: Police focus on head of VSE Firm; *Montreal Gazette*, May 9, 1993, Brokers, traders warned to beware of money laundering

²⁵⁴ Phillips, A. (1963). Organized crime’s grip on Ontario. *MacLean’s*, September 21, p. 58

²⁵⁵ Phillips, A. (1963). The inner workings of the crime cartel. *MacLean’s*, October 5; Edwards, P. (1990). *Blood Brothers: How Canada’s Most Powerful Mafia Family Runs Its Business*. Toronto: Key Porter Books: p. 72; Walter, R. (1971). Organized crime. *Canadian Securities Magazine*, May: pp. 1-6

Obront, the highly trusted “financial advisor” with Montreal’s Cotroni Mafia group, was charged with more than 400 counts of fraudulently manipulating share prices over a 15-year period. The use of the capital markets by the Montreal Mafia was so widespread during the 1960s and 1970s, that a 1977 report by the Quebec Police Commission examining organized crime in the private sector dedicated an entire chapter to the securities industry.²⁵⁶

In British Columbia, a 1974 intelligence report on commercial crime by the Coordinated Law Enforcement Unit (CLEU) documented the involvement of organized (and unorganized) criminals in the Vancouver Stock Exchange.²⁵⁷

In 1997, police began investigating the possible role of one-percenter motorcycle gang members in manipulating the publicly-traded stock of Montreal-based BioChem Pharma. This investigation was intensified after four bombs exploded outside the company’s Quebec headquarters on November 24 and 25 of that year.²⁵⁸ One media article reported that over those two days, an unusually large number of BioChem “put options” was purchased through the Montreal Exchange. The intent of the bombings may have been to destabilize the stock, causing it to drop rapidly and allowing speculators to make a substantial profit.²⁵⁹ In April of 1997, Claude Duboc, who was arrested and convicted in Florida for masterminding one of the world’s largest hashish trafficking empires, agreed to pay his lawyer F. Lee Bailey in BioChem stock, then worth \$5.8 million. Soon after making the transfer, the share price shot up in value to over \$20 million. When U.S. authorities tried to claim the stock as the proceeds of crime, Bailey refused to give it up. He relented only after a judge jailed him for contempt.²⁶⁰

In 1999, the Ontario Securities Commission (OSC) called for a formal partnership between itself and the RCMP in part to crack down on “a disturbing growth in crime in the securities industry, crimes to which a very large degree have been committed by organized syndication.”²⁶¹ By November 2002, the OSC confirmed that organized crime was active in the capital markets across Canada, manipulating share prices, and conducting insider trades, and laundering the proceeds of crime. “Organized crime has realized that in a marketplace where hundreds of millions of dollars are trading every day it would be lucrative if they could get their tentacles into it,” Michael Watson, director of enforcement at the OSC is quoted as saying.²⁶² Around the same time, Inspector Alex Popovic of the RCMP’s Proceeds of Crime section in Milton, Ontario said, “From our perspective, we’re seeing traditional organized crime figures, Colombian Cartels and Eastern European crime groups all working in concert in Canadian capital markets.”²⁶³

²⁵⁶ Quebec Police Commission Inquiry on Organized Crime. (1977). *Organized Crime and the World of Business*. Montreal: Government of Quebec, 148

²⁵⁷ British Columbia. Coordinated Law Enforcement Unit, 1974, 27

²⁵⁸ Financial Post Daily, November 28, 1997, Caller says BioChem animal rights target: but expert suggests Tuesday’s bombings were too sophisticated for Animal Liberation Front

²⁵⁹ Financial Post, May 27, 1998, Police Stalled in BioChem Probe

²⁶⁰ Vancouver Sun, April 26, 1997, B.C. bust ended one of world’s biggest drug empires

²⁶¹ Globe and Mail. OSC warns of rising securities crimes: Calls for full-time RCMP fraud squad policing markets. October 27, 1999

²⁶² National Post, November 13, 2002, Dirty funds haunt small exchanges

²⁶³ The Report on Crime and Profiteering, September/October, 2000, RCMP/OSC fraud team probes organized crime

In the early 2000s, evidence emerged that Vito Rizzuto, the head of the Montreal Mafia, had been linked to stock-market fraud, insider trading and ML in Canada and Italy.²⁶⁴

In a 2012 report prepared for Public Safety Canada, Hicks, Kiedrowski and Gabor acknowledge that criminal organizations are active in the Canadian securities market to perpetrate predicate offences, such as market manipulation, fraudulent high-yield investments, pyramid or Ponzi schemes, and illicit 'tax-free' investments. The securities sector may also be used to launder the proceeds of securities fraud as well as illicit funds produced by drug trafficking.²⁶⁵

In short, the stock market is an industry that is "at tremendous risk of victimization by organized crime" and as a conduit for money launderers specifically, according to Gary Nichols a former head of the RCMP Proceeds of Crime Section for Greater Toronto. Nichols says the brokerage industry is "fraught with burnout" and adds the industry runs on high stress, high pressure, and "some brokers are very hungry, making them susceptible to breaking the rules."²⁶⁶

In an increasingly deregulated environment, where more and more trading is done electronically and in private, the stock market supplies an ideal venue for ML. New technology (such as trading over the Internet) provides new avenues for ML while minimizing the risk. Conducting stock transactions over the Internet provides anonymity and facilitates international transactions, which are so critical to ML.

How the Securities Sector Satisfies ML Objectives / Why it is Vulnerable to ML

Money laundering methods through the securities market can be grouped into three broad categories: (i) purchasing and manipulating investments with the proceeds of such crimes, (ii) using laundering methods and techniques as an extension of stock market fraud, and (iii) taking a criminally-controlled company public by offering shares.

The first category involves financing investments with the proceeds of crimes. Investing in securities allows criminal offenders the opportunity to convert the (cash) proceeds of crime to less suspicious assets. In the past, this meant converting cash into stock certificates, which could then be sold in return for a bank draft. Today, through investments in the stock market, the proceeds of crime can be placed in trading accounts and used to purchase investments, essentially converting cash into electronic account credits or public-traded shares (which can be sold to help create the guise of legitimate revenue). Transacting in securities is attractive to the launderer in that many equity investments are highly liquid and can be easily converted to bank drafts or electronic bank deposits. The added attraction of stock market investments is that they can produce returns for the offender, which can be claimed as legitimate revenue.

²⁶⁴ The Barrie Examiner, Nov. 19, 2010, Ottawa set to probe organized crime

²⁶⁵ Hicks, David; Kiedrowski, John; Gabor, Thomas, (2012). *Economic sectors vulnerable to organized crime: Securities*. Ottawa: Public Safety Canada

²⁶⁶ Schneider, S. (2000). Money laundering in Canada: A literature review, 1990 to 2000. Unpublished report submitted to the Nathanson Centre for the Study of Organized Crime and Corruption, York University, 13

Case Study

On December 17, 2001, Dan Boyle was arrested at the Winnipeg Airport in possession of \$115,050 in Canadian cash. The next day, members of Winnipeg Integrated Proceeds of Crime Unit and the RCMP Drug Section executed a search warrant at a home owned by Boyle and an associate, Willie Van Houghton. During this search, approximately \$19,870 in Canadian currency, \$9,045 in U.S. currency, \$25,000 worth of anabolic steroids, and two pounds of cannabis were seized. By the end of the investigation, a total of 89 drug and proceeds of crime charges were laid against 20 individuals involved in this drug trafficking network.

A forensic audit conducted as part of the investigation estimated that between 1996 and 2000, Boyle had an unexplained income of approximately \$775,000. Both Boyle and Van Houghton were active investors in the stock market and had amassed impressive portfolios, although neither had declared any income over the past several years. Police were able to connect 15 accounts located at 10 different investment brokerage firms in Canada.

Shortly after the arrest of Boyle and Van Houghton, money and securities were transferred among several accounts, in the name of the two accused, as well as relatives and other nominees. While some of the accounts were registered in the name of relatives, Boyle was authorized to trade through all of them. Police ultimately proved that the funds in accounts registered in the names of Boyle's mother and brother were derived from criminal activity.

Accounts were also registered in the names of shell companies set up by Boyle. One such company was BSE Investments, which opened an account with a major investment dealer on June 25, 2000. From that day until June 30, four deposits totalling \$67,500 were made into this account. In addition, \$17,000 was transferred from Boyle's account at another brokerage firm to that of BSE Investments.

Following Boyle's arrest, there was a dizzying movement of funds from bank and investment accounts he directly or indirectly controlled. Shares in a public company called Edusoft Inc. were transferred from BSE Investments' account to the account of Boyle's brother. An additional \$27,000 was withdrawn from the brother's investment account and transferred to his bank account. The funds were then moved to the mother's account at another bank and subsequently transferred to her account at Investing Networks Ltd. She also opened an account at another investment firm with a deposit of \$17,000. The source of these funds was two cheques, which were drawn from two investment accounts in the name of Dan Boyle (one of which was opened after he was arrested). The mother also wrote a \$25,000 cheque to Investing Networks Ltd. from a bank account in her own name, which was then deposited into another account at the same bank in the name of Investing Networks. The \$25,000 cheque was preceded by a deposit of \$25,000 on the same day from a bank account in the name of Boyle's brother. The source of the funds appears to be a \$25,000 cheque drawn from the brother's brokerage account, a month earlier. The funds in this account were from the sale of Edusoft shares, which were transferred to the brother from BSE Investments' account.²⁶⁷

²⁶⁷ Schneider, 2004, 54-55

The second category of money laundered through the securities market is when the criminal proceeds are the result of stock market-related crimes, such as market manipulation or insider trading. Indeed, the capital markets are most vulnerable to ML from predicate offences committed in the markets themselves. When compared to the laundering of money from drug-related crimes (i) the laundering of the proceeds of crime of market offences is often indistinguishable from the predicate offence and (ii) the proceeds of the original market-related crime that are laundered are electronic (investment) credits in a trading account; as such, the proceeds are already internal to the industry (and not introduced into the sector from an external source). In its 2013 report, *Money laundering trends and typologies in the Canadian securities sector*, FINTRAC cites one stock manipulation case that artificially increased the share price of a public company's stock. The offenders used nominees to deposit physical certificates of that company into brokerage accounts. The shares were then sold on the open market shortly after the deposits. The revenue from the sale was quickly removed from the brokerage accounts and wired offshore to those suspected of perpetrating the stock manipulation scheme.²⁶⁸

The third major laundering method through the capital markets is the opposite of the first two: instead of purchasing securities, criminal entrepreneurs offer shares in a public company they control, and which has been previously injected with criminal proceeds. This method allows a criminal organization the opportunity to raise capital through the public offering. Under this method, a private company is incorporated or an existing one is bought by a criminal organization. The company may not carry out any legitimate business but can appear to be highly profitable through the injections of criminal revenue, which is made to appear as legitimate revenue. Shares are then issued to the public, preferably through a reputable stock exchange and in conjunction with a respectable under-writer. The actual laundering occurs after shares are bought by investors and the capital financing is received by the original criminal owners of the company.²⁶⁹

Case Study

In May 1998, the FBI raided the U.S. headquarters of YBM Magnex Inc., a public company listed on the Toronto Stock Exchange. The raid was part of an investigation alleging that the company was used by Russian organized crime as a ML vehicle. Following the raid, all trading in YBM shares was halted, eventually leading to the company's collapse. Before trading was stopped, more than \$100 million was raised from Canadian investors and the firm had a capitalization of close to \$900 million.

YBM was formed in 1991 by its parent company, Arigon Co. Ltd. One of YBM's original shareholders and a director of Arigon was Semyon Mogilevich, a leading Russian organized crime figure. Arigon was set up in the Channel Islands in 1990 and was Mogilevich's original conduit for laundering money, according to a 1995 British criminal intelligence report. The same report describes Mogilevich as "one of the world's top criminals" and that he used YBM "purely to legitimize the criminal organization by the floating on the stock exchange of a corporation which consists of U.K. and U.S.A. companies whose existing assets

²⁶⁸ Financial Transactions and Reports Analysis Centre of Canada. (2013). *Money laundering trends and typologies in the Canadian securities sector*. Ottawa: Financial Transactions and Reports Analysis Centre of Canada, 9.

²⁶⁹ Schneider, 2004, 56

and stock have been artificially inflated by the proceeds of crime.”²⁷⁰ Arigon also reportedly had ties to Sergei Mikhailov, the suspected leader of the Solntsevo Gang, one of the most powerful crime groups in Moscow, involved in drug trafficking, extortion, smuggling, auto theft, and prostitution.

A private forensic investigation into YBM claimed that its six original investors, including Mogilevich, were all members of the Solntsevo group. A few months later, Arigon established a subsidiary in Moscow known as Arbat International Ltd., which was also used as a laundering vehicle for Mogilevich and Mikhailov, according to a 1995 British intelligence report. In 1991, Arigon bought another Hungarian manufacturing company for \$1.8-million. This company was renamed Magnex and started producing industrial magnets from a plant in Budapest. According to court documents, the factory was set up in part with stolen equipment and also sold embargoed items such as weapons and enriched uranium to customers in Pakistan and the Middle East.

On May 16, 1991, law enforcement authorities in Britain raided the London offices and homes of Mogilevich's lawyers and his former girlfriend and seized 100 files relating to Arigon, alleging (US)\$50 million in proceeds of crime passed through its commercial accounts at the Royal Bank of Scotland over three years. Private forensic investigators later found \$2 million in cash at the Budapest factory, which YBM officials explained was for salaries.

By the early 1990s, Mogilevich and Mikhailov began to expand into North America. In 1993, an associate of Mogilevich contacted Joseph Bogatin, a Russian academic who lived in the U.S. and specialized in magnet technology. In February 1994, Bogatin left his employer and formed YBM Magnex Inc. in Hatboro, Pennsylvania. YBM then merged with Arigon. In April 1996, Bogatin created Pratecs Technologies Inc., a company incorporated in Alberta and listed on the Alberta Exchange. In October 1996, Pratecs formally acquired YBM Magnex, and changed its name to YBM Magnex International Ltd. By that time, Mogilevich and five of his associates owned just under one-third of YBM's outstanding shares. In 1996, YBM moved onto the Toronto Stock Exchange, and on November 20, 1997, the Ontario Securities Commission approved a \$53-million equity issue at \$16.50 a share.

Documents unsealed in court show that since at least the late 1980s, Mogilevich had set up dozens of companies worldwide to launder money. He directed illegal revenues through YBM-related bank accounts in Philadelphia to his co-conspirators and misled investors and regulators about nearly every aspect of YBM's operations.

By December 1998, the company was in receivership and, in 1999, YBM officers pleaded guilty to conspiracy charges in U.S. Federal Court, admitting the company was conceived as a vehicle for fraud and money laundering. The company eventually went bankrupt. According to court documents filed by U.S. government attorneys, Mogilevich intentionally used Canadian stock exchanges to orchestrate his laundering activity because he felt Canada had lax regulations.

In their indictment of Mogilevich, U.S. attorneys estimated that he pocketed more than (US)\$12 million through the sale of 2.1 million shares held in an account at First Marathon Securities between mid-1996 and early 1997. The proceeds were then transferred to an overseas bank account he controlled. The

²⁷⁰ As cited in Beare, M. (2000). Russian (East European) organized crime around the globe. Paper presented at the *Transnational Crime Conference* convened by the Australian Institute of Criminology in association with the Australian Federal Police and Australian Customs Service. Canberra, Australia, March 9-10.

indictment also alleges that Mogilevich personally made another \$6 million from bonuses and other compensation from YBM, including sales commissions.²⁷¹

The Role that Securities Plays in Different ML phases

The securities market can potentially be used in all three phases of the ML process. However, as FINTRAC emphasizes, “Money laundering in the securities sector is most often considered to be related to the layering stage” in which “the goal is to create a complex series of financial transactions to disguise the source and/or ownership of the funds.”²⁷²

Given that cash deposited directly into an investment firm’s trading accounts may raise suspicion, electric fund transfers from bank accounts or the use of monetary instruments, such as bank drafts, are typical ways that the proceeds of crime enter the securities market from external criminal sources. FINTRAC cites one case in which a suspected affiliate of an organized drug trafficking group deposited several bank drafts into a brokerage trading account. Structuring was suspected in that the bank drafts were all under \$10,000 and were purchased from many different financial institutions.²⁷³

Once illicit funds are invested in the markets, multiple transactions can be made to satisfy the layering process. In suspicious transaction reports submitted to FINTRAC, securities dealers “reported suspicions about unnecessary complexity in their clients’ transactions.” Of specific concern were frequent contributions and withdrawals from securities accounts as well as transfers between accounts (including trading accounts and bank accounts). Common transactions indicative of layering (or “wash trading”) “include incoming electronic funds transfers from, or outgoing [electronic fund transfers] to third parties; transfers to/from securities accounts held by third parties; and negotiable instruments (e.g. certified cheques, bank drafts) made payable to third parties.”²⁷⁴

The extraction/repatriation phase is satisfied when investments are cashed in and the funds are deposited in a bank account or a monetary instrument is issued by the securities dealer. The FINTRAC report indicates that “When Canadian securities dealers flagged suspicions related to the purchase and sale of securities products, the most common suspicion identified was the early redemption of securities products, primarily money market funds (MMFs), GICs and mutual funds.”²⁷⁵

Both the layering and extraction/repatriation phases are buttressed by transactions involving other sectors, such as when the proceeds of the sale of investments are deposited into a bank account. FINTRAC says that ML activity in the securities market “often involves a variety of transactions across

²⁷¹ Schneider, 2004, 56-57; Globe and Mail, June 8, 1999, Mob boss picked Canadian exchanges for YBM scam; National Post, December 10, 1999, YBM was urged to consider liquidation - then raised \$100-million - warned of 'lack of inventory,' possible 'cooked books'; Globe and Mail, December 21, 1999, Russian mob set up YBM office with stolen goods, sold weapons. Court documents also cite money laundering; Toronto Star, December 8, 2001, Auditors detected YBM link to mob. Finding raised 'serious concerns' over suspect deals; Globe and Mail, April 26, 2003, YBM officers pocketed millions, U.S. says

²⁷² Financial Transactions and Reports Analysis Centre of Canada, 2013, 8, 11

²⁷³ Financial Transactions and Reports Analysis Centre of Canada, 2013, 11

²⁷⁴ Financial Transactions and Reports Analysis Centre of Canada, 2013, 6, 7

²⁷⁵ Financial Transactions and Reports Analysis Centre of Canada, 2013, 7

multiple sectors; transactions involving Canadian securities dealers may represent only one part of a broader money laundering scheme.”²⁷⁶

As the YBM case indicates, when criminal groups incorporate publicly-traded companies, the proceeds of crime can be funnelled through such companies disguised as capital investments or revenue (placement). Once a company goes public, numerous layering techniques are at their disposal: subsidiaries can be incorporated (which facilitate the transfer of funds and assets), nominees can pose as investors (hiding beneficial ownership) and/or can be hired as executives or appointed as directors, (earning lucrative salaries that are really the proceeds of crime). The extraction/repatriation phase is satisfied when shares are purchased by the public and the capital financing is received by those responsible for the original predicate offences.

Money Laundering Methods and Techniques Used with Securities

For FINTRAC, the suspected ML methods and techniques identified in the securities markets include the deposit of physical certificates, manipulating securities traded over the counter, early redemption of securities, proceeds of sale in the form of negotiable instruments, and transfers of funds between accounts. In general, these methods fall into the layering phase as they represent transactions intended to disguise the source and/or ownership of the funds.²⁷⁷

Deposit of Physical Certificates

While the majority of share certificates are now electronically registered, physical certificates are still available in Canada. “Notwithstanding their legitimate use, physical certificates present an increased risk of money laundering in the securities industry,” according to FINTRAC. This is due to the secrecy they provide to the bearer. “When they are deposited into a brokerage account, there is little information readily available to the broker confirming the source of the funds used to purchase.” One case study presented by FINTRAC involves “an organized crime and illegal gaming case” in which “suspected organized crime members deposited bearer bonds into their accounts. These bonds were purchased by a suspected nominee using the proceeds of the illegal gaming operation, who then transferred the bearer bonds to the members of the criminal organization.”²⁷⁸

Securities Traded Over the Counter

Over the counter (OTC) markets are vulnerable to fraud and ML due to the often highly speculative companies that are traded as well as the less stringent reporting and registration requirements of the major stock exchanges. In one case, the subject of a securities fraud investigation “purchased over one million shares in a company traded OTC in an off-market transaction for less than a third of the market price. An investment company sold the shares through an integrated firm (i.e. a major financial institution) on the part of the investigative subject. FINTRAC suspected that the terms of the sale of these shares were predetermined by the investigative subject and the purchasing party, in order to transfer the criminal proceeds. The shares were sold the next day at market price, which enabled the

²⁷⁶ Financial Transactions and Reports Analysis Centre of Canada, 2013, 5

²⁷⁷ Financial Transactions and Reports Analysis Centre of Canada, 2013, 5

²⁷⁸ Financial Transactions and Reports Analysis Centre of Canada, 2013, 8

share purchaser to receive a 300% return on their investment in one day and provided a seemingly legitimate explanation for the source of the criminal proceeds.”²⁷⁹

Early Redemption of Securities

The sale of fixed-date maturity investments, such as GICs, before their maturity date is a possible indication of ML. A premature sale provides “criminals with a seemingly legitimate explanation for the source of their wealth, and the associated early redemption fees and penalties can be considered as the cost to obtain this appearance of legitimacy.” In one international drug trafficking case, the offenders in Canada received the suspected proceeds of the drug sales via electronic fund transfers. “These transfers were then used to purchase mutual funds, which were sold shortly thereafter without regard for the resulting penalties. The proceeds from the sale of the mutual funds were then wired offshore.”²⁸⁰

Proceeds of Sale in the Form of Negotiable Instruments

The proceeds from the sale of a securities investment are typically held in the investor’s trading account or transferred to a bank account kept by the investor. “A money laundering method observed by FINTRAC involves the request of other negotiable instruments, such as certified cheques or bank drafts. This can provide another layer of complexity to disguise the true source and ownership of the funds.” In one stock manipulation case, the offenders used nominees to sell the shares they acquired. These nominees requested that the proceeds of the sales be received in the form of certified cheques, made to the benefit of third parties (the criminal offenders).²⁸¹

Transfers of Funds Between Accounts

For ML purposes, transfers between different brokerage accounts can be used to layer transactions and distance dirty money from its criminal origin so that it appears legitimate. In many of the cases disclosed by FINTRAC in which this method was used, there generally were no purchases or sales of securities within the accounts. Instead, the accounts appeared to be used solely as conduits to transfer funds. Typical of this method is the opening of an account which is quickly followed by the transfer of funds to other brokerage or bank accounts, either domestically or internationally. “In a case related to the suspected misappropriation of funds, a foreign national who was a senior executive of a company transferred funds suspected of being stolen from the company to a brokerage account at a Canadian securities dealer. No securities were purchased in the account and the funds were quickly wired offshore.”²⁸²

6.2.7. Criminally-Influenced Companies

The establishment and operation of companies in the legitimate economy by criminal entrepreneurs is not a recent development. In the United States, enterprising loan sharks, such as Charles Luciano and Frank Costello, became silent partners in companies owned by recalcitrant debtors.²⁸³ During the 1930s, and for decades thereafter, members of criminal groups in North America maintained controlling

²⁷⁹ Financial Transactions and Reports Analysis Centre of Canada, 2013, 9

²⁸⁰ Financial Transactions and Reports Analysis Centre of Canada, 2013, 9-10

²⁸¹ Financial Transactions and Reports Analysis Centre of Canada, 2013, 10

²⁸² Financial Transactions and Reports Analysis Centre of Canada, 2013, 10-11

²⁸³ Richard Hammer. (1975). *Playboy's Illustrated History of Organized Crime*. Philadelphia, Pa: Courage Books.

interests in transportation companies, a natural outgrowth of their involvement in trucking during Prohibition. Indeed, the era of Prohibition provided the foundation for an unprecedented involvement of organized crime in numerous legitimate industries, such as entertainment, hotels, restaurants, bars, and legalized gaming. Bars, restaurants, and retail stores have long been popular investments for crime groups due to their utility as headquarters, meeting places, gambling halls, and to launder the proceeds of their illegal activities.²⁸⁴

The Cotroni crime group in Montreal operated several businesses throughout the city from the 1950s to the 1970s, including those involved in construction, food wholesaling, hotels, restaurants, bars, vending machines, and hotels, among others. All these companies were used to carry out both legitimate and illegitimate commerce. Willie Obront, the alleged financial brains behind this criminal organization, sat at the head of 38 companies on behalf of the Cotroni family. Along with two associates, Obront ran a company that supplied 500 vending machines and managed to have the only meat-storage facilities on the site of the 1967 Montreal World Exposition, a monopoly that involved selling tainted and spoiled meat to concessionaires. Evidence gathered through the Quebec Police Crime Commissions of the 1970s indicated that the Cotroni family used intimidation and the corruption of labour and government officials to limit competition.²⁸⁵

More recently, investigative journalists William Marsden and Julian Sher claim that the assets of the Hell's Angels in the Greater Vancouver area alone include two cellular phone stores, restaurants, clothing stores, apartment buildings, supermarkets, construction and waste-disposal firms, motorcycle dealerships, and a large transportation company that works for the movie industry.²⁸⁶

How Criminally-Influenced Companies Satisfy ML Objectives

Canadian police cases, research, and government commissions have shown that individuals associated with organized crime groups have long been involved in establishing, purchasing, or investing in companies for the purposes of money laundering.²⁸⁷ Perhaps, the greatest attraction of criminally-influenced companies for ML purposes is that the cash proceeds of crime can be deposited into bank accounts under the guise of legitimate revenue. Especially attractive to money launderers are retail businesses that customarily handle a high volume of cash transactions, such as restaurants, bars, supermarkets, gas stations, or currency exchange dealers. As described in a McLean's article entitled "the laundering game,"

Traffickers often take over or invest in businesses that customarily handle a high volume of cash transactions. Retail stores, restaurants and food markets are popular. The drug money

²⁸⁴ Schneider, 2003, 130

²⁸⁵ Quebec Police Commission, 1977; Edwards, 1990

²⁸⁶ Julian Sher and William Marsden. (2003). *The Road to Hell: How the Biker Gangs Conquered Canada*. Toronto: Knopf Canada

²⁸⁷ For example, see: Royal Commission on Customs and Excise (Canada). 1928. *Interim Reports (Nos. 1 to 10)*. Ottawa: F.A. Acland; Quebec Police Commission. 1977. *Report of the Commission of Inquiry on Organized Crime and Recommendations: Organized Crime and the World of Business*. Quebec: Quebec Police Commission; Alexander, S. (1988). *The Pizza Connection: Lawyers, Money, Drugs, Mafia*. London, UK: Weidenfeld and Nicolson; Abadinsky, H. (2000). *Organized Crime*. New York, NY: Wadsworth Publishing; Nicaso, A. and Lamothe, L. (2000). *Bloodlines: The Rise and Fall of Mafia's Royal Family*. Toronto: Harper Collins.

is intermingled with legitimate revenues on a regular basis. While the apparent business profits produced by the drug money are subject to tax, the illicit funds are hidden within the legitimate income. For legitimate owners, a side benefit of the scam is that it artificially improves the sale price of the business because it ostensibly exhibits a far better cash flow than it really has.²⁸⁸

Schneider identifies the four benefits of using a company for ML purposes.

First, criminally-controlled companies accomplish the objective of converting the cash proceeds of crime into an alternative asset. This is most apparent when criminal entrepreneurs invest in operating businesses with hard assets.

Second, companies provide an effective guise to legitimize both the proceeds of crime and individuals associated with the illicit funds. Through the use of shell or legitimate companies, the third objective of money laundering is satisfied – creating the perception that the illicit funds have been generated from a legitimate source ... Companies also offer criminal entrepreneurs a seemingly legitimate source of employment in the community, which in turn helps cultivate an image of respectability. The influx of illicit revenues into legitimate businesses also provides the criminally-controlled company with a marked business advantage over its competitors.

Third, companies facilitate access to other laundering vehicles and techniques. As a medium between a criminal organization and other laundering vehicles, companies are very flexible and can be tailored to a launderer's specific needs. For example, criminal organizations laundering money through real property can incorporate real estate sales agencies, mortgage-brokerage firms, and development or construction companies to facilitate access to real property. A wide range of legitimate and/or bogus business transactions can be used to further the laundering process, such as lending money between criminally-controlled firms, paying out fictitious expenses or salaries, disguising the transfer of illicit funds as payment for goods or services, and offering public shares in a company originally financed with criminal funds.

Finally, companies can also be quite effective in concealing criminal ownership of the company itself, as well as other assets purchased with the proceeds of crime. Nominees can be used as shareholders, directors, officers, or employees and domestic companies can be incorporated as subsidiaries of corporations based in tax haven countries with strict secrecy and disclosure laws, thereby greatly inhibiting investigations into their beneficial ownership. Title to real estate, bank accounts, and other assets can be registered in the name of numbered companies and nominees can pose as owners, directors, officers, or shareholders. Companies in Canada can be incorporated as subsidiaries of corporations based in tax haven countries with strict secrecy and disclosure laws, thereby greatly inhibiting police investigations into the ownership of the Canadian-based assets.

In short, criminally-controlled companies have the potential to satisfy the three prime objectives of money laundering: they aid in the conversion of illicit cash to another asset, they can effectively

²⁸⁸ MacLean's, October 23, 1989, The laundering game: Cleaning dirty money is crucial, 54-55

hide the true source of illegally-derived funds, and they can create the perception that income has been generated from a legitimate source.²⁸⁹

The Role Criminally-Influence Companies Play in Different ML Phases

Criminally-influenced companies can also satisfy all of the ML phases, although to do so they would need to be used in conjunction with other sectors. The cash proceeds of crime can be used to kickstart a new business or invest in or purchase an existing one. Numerous laundering methods and techniques can be used during the layering process: double invoicing, flipping companies, taking a criminally-influenced company public, and establishing a labyrinth of shell companies, to name just a few. Finally, the extraction/repatriation stage is satisfied when the proceeds of crime (as well as any legitimate revenue from the company) are returned to the beneficial criminal owners through the guise of legitimate revenue or from money provided by investors.

Services, Products and Assets Used / ML Techniques Specific to Criminally-Influenced Companies

In Schneider's analysis of RCMP proceeds of crime cases, 32 percent involved criminally-influenced companies. The many companies operated, or purported to operate, various lines of business, including currency exchange, importing/exporting, retail fish sales, masonry, paving, painting, auto wholesaling, auto financing, lumber supplies, courier services, marine craft sales, office supplies, restaurants, bars, hotels, marinas, real property development, retail tire sales, construction, pool halls, pinball arcades, car washes, tanning salons, and fitness clubs. Numerous other businesses were established as numbered or holding companies with no declared line of business. In some cases, the company's business was strategically chosen to maximize the appearance of legitimacy and normalcy which, in turn, would help shroud its criminal intentions. For example,

- restaurants were established to provide a locale for the sale of drugs and as a guise under which the cash proceeds of these sales could be deposited into bank accounts,
- a currency exchange company was established by a drug trafficking group to convert Canadian to American cash, which was then transferred internationally to purchase drugs,
- an organized auto theft ring incorporated companies that specialized in auto wholesaling, which facilitated the sale of stolen cars to automobile dealerships, and
- an auto importation company was established by cocaine traffickers in Canada to legitimize their need to purchase American funds (which was used to purchase cocaine). Also, cocaine would be exported from the U.S. to Canada concealed in cars "sold" by an American auto export company, which in fact was operated by the U.S.-based cocaine supplier.²⁹⁰

Criminal entrepreneurs use both operating and shell companies for ML purposes. Shell companies are legally incorporated and registered but have no real business apart from ML (or other criminal activity, such as fraud). Criminal enterprises will also use real businesses to launder illicit money. These businesses differ from shell companies in that they are operational, offering industrial, wholesale, or retail goods or services. Despite these differences, there is a fine line between a shell and a legitimate company; while the latter may supply legitimate goods and services, it is often propped up by injections of criminal revenue. Once a

²⁸⁹ Schneider, 2004, 51

²⁹⁰ Schneider, 2004, 52

shell or legitimate company is established, several other techniques can be used to further the laundering process.

As mentioned, the primary objective of establishing companies is to claim the proceeds of crime as legitimate revenue, which may be comingled with legitimate revenue and deposited into commercial bank accounts. Other laundering techniques used in conjunction with criminally-influenced companies are summarized below.

Using Nominees as Owners or Directors

To maximize the air of legitimacy, and to distance a company from its criminal connections, nominees are often used as company owners, executives, and directors. In a 2018 report entitled *Hidden beneficial ownership and control: Canada as a pawn in the global game of money laundering*, Meunier argues that the lack of transparency in the beneficial ownership of corporations and trusts in Canada facilitates their illicit use. While many methods and techniques may be used to hide ill-gotten gains, launderers often use corporations and trusts to co-mingle dirty money with legitimate funds to flow them through these entities' bank accounts or to conduct other criminal activities such as fraud. The "secret sauce" in this recipe is the creation of legal arrangements that hide the beneficial owner of the corporation, partnership or trust that exercises significant control over the entity.²⁹¹

Establishing Multiple Companies

In some cases, several companies are set up, many of which were connected through a complex hierarchy of ownership. This helps to conceal criminal ownership and facilitate the transfer of illicit funds (domestically and internationally) between companies using fraudulent transactions, such as fake loans, purchase of merchandise, supplies or services, etc.

Establishing Companies in Financial Haven Countries

Their strict corporate secrecy laws of financial haven countries can effectively conceal the true ownership of companies and their assets. Nominees can easily be registered as owners and directors and, in some financial haven countries, there are lists of names of individuals who will readily pose as a nominee director or executive.

Flipping Companies

One of the most effective means to ensure that illicit funds are laundered under the guise of revenue from a company is to sell the business. Once the company has been sold, the criminal has a seemingly legitimate source of capital. The added benefit of selling a company through which illicit money circulates is that it will ostensibly exhibit significant cash flow and, as such, it will look like an attractive investment and realize a high selling price.

Purchasing a Company Already Owned by the Criminal Enterprise

Another laundering technique is for a criminal offender to "purchase" a company he or she already owns. This method is most commonly used to repatriate criminal proceeds that were previously sent offshore from Canada; criminal proceeds are sent to Canada under the guise of payment for the

²⁹¹ Meunier, D. (2018). *Hidden beneficial ownership and control: Canada as a pawn in the global game of money laundering*. Canada, Toronto: C.D. Howe Institute.

purchase of a Canadian company often by a shell company established in a financial haven. The Canadian company may be purchased at an artificially inflated price to maximize the amount of money returned to Canada.

Paying out Fictitious Salaries

In addition to claiming the proceeds of crime as legitimate business revenue, criminally-influenced companies also help legitimize participants in a criminal conspiracy by providing them with purportedly legitimate salaries. In one proceeds of crime case examined by Schneider, salary cheques were signed back to the company by the “employee” as part of the laundering operation.²⁹²

Case Study

One of the largest ML operations in Canada used several businesses. At the center of the operation was Claude Duboc, a large-scale hashish importer operating in British Columbia whose estimated profits were (US)\$165 million annually.²⁹³ A small B.C. log salvage company called Coastal Forest Products Ltd. was looking for investors in an attempt to raise a few million dollars to buy a fleet of ocean-going ships, tugs, and barges that would export wood chips to pulp and paper makers in Japan and other Asian countries. Duboc saw this as a perfect strategic investment. Operationally, wood chip exports would be a great cover for a business that always needed ocean-going vessels to haul his drugs. Buying equity in a small forest products company would also be a creative way to launder the proceeds of his drug trafficking. In early 1992, Duboc agreed to become a 50-50 partner in the Vancouver business, initially investing \$5 million. In making his investment, Duboc used a Singapore company called Grand East Exports Ltd. to send wire transfers from Bahrain in the name of a fictitious company, Arab Financial Services on behalf of another fictitious company, Arab Lumber Products. According to court documents these wire transfers were sent to the CIBC branch in Richmond, B.C. made payable to G.L. Burden, the president of Coastal Forest Products.²⁹⁴

By the time, the RCMP caught up to Duboc, his money was actively flowing through other companies including a towing operation, a construction firm, and an upscale home renovation business.

The firms used many of the classic ML methods. They set up dozens of companies offshore, many of them incorporated in either Hong Kong or the Bahamas, to own assets and move money around. These companies would often deposit money into trust accounts, administered by the Vancouver law firm Paine Edmonds, and from these trust accounts, funds would be used to pay bills and buy assets. The RCMP allege that about half of the \$4.5 million of Duboc’s money that went through the trust accounts came from auto dealers and leasing companies he controlled. Duboc’s Bahamian companies are alleged to have invested almost \$7 million into real estate in B.C. in 12 months with much of that money been

²⁹² Schneider, 2004, 50-52; Beare and Schneider, 1990; Bowie, B. (1988). *Money Laundering Techniques*. Ottawa: Royal Canadian Mounted Police, Drug Enforcement Directorate. (Unpublished); British Columbia. Ministry of the Attorney General. (1980). *Business of Crime: An Evaluation of the American R.I.C.O. Statute from a Canadian Perspective*. Victoria: Ministry of the Attorney General

²⁹³ The Vancouver Sun, April 16, 1997, B.C. bust ended one of the world’s biggest drug empires

²⁹⁴ The Vancouver Sun, April 16, 1997, B.C. bust ended one of the world’s biggest drug empires; Globe and Mail, April 20, 1996 A drug lord’s comedown

funnelled through the trust accounts. Roughly \$2.2 million of the Paine Edmonds trust money went to a contracting business run by a Vancouver builder who used it to buy \$500,000-plus lots in posh Vancouver neighbourhoods. The builder would demolish the existing house, build a new monster home with loans from various sources, including Duboc. The houses were then sold and the lenders paid back with the proceeds plus interest.²⁹⁵

In 1996, police laid charges against Duboc, his lawyer, Basil Rolfe, three other men, and at least six Vancouver-based companies, including Karden Maritime Inc.; 379785 B.C. Ltd., doing business as Coastal Forest Products; International Commodity Traders Ltd.; 419364 B.C. Ltd.; Southbeach Marine and Watersports Ltd. and Carco Trading Ltd.²⁹⁶

6.2.8. Precious Metals and Gems

By purchasing precious metals and gems, a launderer can convert cash into a form that is more easily concealed and can be smuggled out of the country or sold through an intermediary for a monetary instrument.²⁹⁷ As such, according to Schneider:

These assets satisfy one of the essential prerequisites of money laundering: converting a cumbersome amount of cash to less suspicious, high value commodities. Especially appealing to money launderers is the physical compactness and portability of jewellery, gems, and rare coins, all of which can be easily concealed and transported. Jewellery, precious gems, gold, and coins are also generally unencumbered by government regulation, are readily bought and sold through retail outlets, can be transported internationally, and are easily converted back into cash almost anywhere in the world. They can also potentially provide a means to conceal criminal ownership; little identification is required when transacting in these types of assets and nominees can be used to obscure any links with the beneficial owner.²⁹⁸

Case Study

On October 6, 2009, Khaled Nawaya was arrested by Canada Border Service agents when they found \$800,000 in gold coins and other currency in his car and pockets at an official land border point near Surrey, B.C. Besides the gold, CBSA agents found a ring bearing the insignia of Hezbollah, which is listed as a terrorist organization by the Canadian government. They also seized 9/11 conspiracy theory-themed DVDs and a scarf adorned with the images of a former Israeli prime minister and a U.S. president depicted as monkeys.²⁹⁹

In 2018, FINTRAC issued a brief directive entitled *Risk-based approach workbook dealers in*

²⁹⁵ Globe and Mail, April 20, 1996 A drug lord's comedown

²⁹⁶ Vancouver Sun, January 10, 1996, Charges follow massive hashish seizure: Counts laid against four Vancouver residents and nearly a dozen companies

²⁹⁷ Kieley, 2000

²⁹⁸ Schneider, 2004, 63

²⁹⁹ CTV News, November 11, 2009, Man arrested at B.C. border with 'terrorist resources' held as security threat

precious metals and stones (DPMS). This report was written as guidance to dealers in precious metals and stones to identify transactions that may be suspicious of ML. DPMS are advised to “assess all your products and delivery channels to determine if they pose a high risk of ML/TF.” This may include, but is not limited to: purchase of precious metals, precious stones or jewellery, sale of precious metals, precious stones or jewellery, non-face-to-face transactions with unknown clients (through the internet, mail or telephone).”

Some examples of potentially high-risk products and delivery channels provided by FINTRAC in the report are provided below.

Gold can be a high-risk product, as it is transformable, easily exchangeable, and potentially provides anonymity in transactions. It has a universal price standard and can be used as a currency.

An established customer purchasing much larger than usual quantities of gold bullion for no apparent reason, or a previously unknown customer requesting that a refiner turn gold into bullion.

A client using cash to purchase bullion, especially in large amounts. Foreign nationals purchasing gold bullion through multiple transactions over a short period. Gold purity, weight, origin and value are misclassified on customs declaration forms. Unlicensed persons or businesses producing and commercializing gold. Bullion that has physical characteristics inconsistent with industry standards. Gold prices higher than in the local gold market.

Diamonds can be higher-risk products, as they are easily transported and concealed, can carry enormous value, provide anonymity in transactions and are difficult to trace.

Certain red flags for high-risk activity include purchases or sales which are unusual for the customer, illogical from a business or economic point of view or not in line with standard industry practices.

The purchase or sale of diamonds whose origin seems to be fictitious. This is particularly true for rough diamonds that are not accompanied by a valid Kimberly Process certificate. A Kimberley Process certificate that seems to be forged, or that has an exceptionally long validity.

A customer or supplier who is known for their involvement in trafficking conflict diamonds. A customer or supplier who is not familiar with trade practices, or who consults a third party while conducting transactions.

High-value cash purchases of diamonds, particularly in jurisdictions or stages of trade where the use of cash as a method of payment is less common. The customer or supplier seems to be indifferent to the date of payment (which could be upon the delivery of the diamonds, or several months later).

A customer who requests to purchase polished diamonds in bulk, for no apparent legitimate business reason.³⁰⁰

In addition, the guidance provides some examples of client and transaction characteristics that

³⁰⁰ Financial Transactions and Reports Analysis Centre of Canada. (2018). *Risk-based approach workbook dealers in precious metals and stones (DPMS)*. Ottawa: FINTRAC, 4-5

can be considered high-risk:

Clients

A client who appears to be unconcerned about price. A client paying for expensive jewellery in cash.

A client attempting to use a third party cheque or a third party credit card. A client indiscriminately purchasing merchandise without regard for value, size or colour. A client who has a significant and unexplained geographic distance from the dealer. A client who orders items, pays for them in cash, cancels the order and then receives a large refund (particularly if the refund is issued in the form of a cheque). A purchase appears to be beyond the means of the client, based on their stated or known occupation or income.

A client who is reluctant to provide adequate identification information when making a purchase, or who wishes to maintain a high degree of secrecy with regard to the transaction, such as requesting that normal business records not be kept.

A client who does not understand the industry in which they propose to deal, or lack the appropriate equipment or finances for such an engagement. You are aware or you become aware, from a reliable source (that can include media or other open sources), that a client is suspected of being involved in illegal activity.

Transactions

Transactions that appear to be structured to avoid reporting requirements. Transactions in which third parties are involved, either as payers or as recipients of payment or product, without an apparent legitimate purpose.

The use of non-bank financial mechanisms, such as currency exchange or money remitters, instead of the banking system. Transactions that differ from those initially anticipated or outlined in the purpose of a business relationship.³⁰¹

Despite their utility in facilitating ML, gold, precious gems, and jewellery are also purchased with the proceeds of crime by drug traffickers, gang members, and other criminal entrepreneurs for personal use. In a 2015 doctoral dissertation entitled exploring the “uniqueness of the BC gangster phenomenon”, McConnell argues that the copious amounts of expensive jewellery purchased and worn by gang members in that province should be seen as part of an ostentatious lifestyle in which they seek to portray power and wealth.³⁰²

Case Study

In November 2014, the B.C. Civil Forfeiture Office (BCCFO) successfully sued to force the forfeiture of more than (CDN) \$200,000 worth of jewellery belonging to Joey Lamont Arrance, at the time a member of the Renegades MC, a Hell's Angels affiliate in Prince George. Arrance was found guilty in May 2014 of weapons offences although the BCCFO alleged he and his girlfriend derived their income solely from drug trafficking. Among the items (and their worth) ordered to be forfeited by the courts: a man's yellow

³⁰¹ Financial Transactions and Reports Analysis Centre of Canada, 2018, 8-9

³⁰² McConnell, 2015, 172

10-karat gold diamond pendant (\$42,610.40 in CAD), a man's Breitling watch (\$37,916.00), a man's 12-karat yellow gold chain (\$30,284.80), a man's 14-karat white gold diamond ring (\$26,073.60), a man's 18-karat white gold diamond ring (\$22,797.60), a yellow and white gold diamond cross pendant (\$15,444.80) a man's 12-karat yellow gold diamond ring (\$12,331.20) a man's yellow gold demon garnet ring (\$3,472.00) and a yellow gold chain (\$3,225.60). The girlfriend allegedly stored some of the jewelry in a safety deposit box to prevent its seizure by the RCMP.³⁰³

6.2.9. The Internet, Other Virtual Medias, and Crypto-Currencies

For some, the Internet and other virtual methods to launder money signify a new and dangerous frontier available to criminal groups. In their 2014 report on cybercrime, the RCMP found that through the Internet, criminal money transfers originating from Canada can be made and electronically routed through foreign jurisdictions with weaker ML safeguards. Money launderers can also collude and exploit legitimate online services, such as auctions or online gambling, to hide criminal proceeds by buying and selling fictitious items or by masking such proceeds as legitimate gambling profits.³⁰⁴

In his article, "Virtual money laundering and fraud," Sullivan describes how one Massively Multiplayer Online Game (MMOG) called "Second Life" can potentially be used to launder money.

In the virtual world there is negligible means of monitoring financial activity, sparse due diligence, paltry customer identification rules, nor any mandated forms or reports to complete. The virtual realm is a completely unregulated and a voluminous means of money movement. This could potentially provide a safe harbor for a criminal element including money launderers, fraudsters and/or terrorists.

To purchase goods in the Metaverse, Second Life has created its own currency called Linden dollars (Linden is the name of the game developer) which can be exchanged for US dollars. Currently, on Second Life the exchange rate is approximately 270 virtual dollars for \$1.00 US.

This is the root of a very complex issue. Once a value is placed on an object (no matter what that object is, real or virtual) criminals will find a way to abuse it either by fraud and/or money laundering. Of course, in the money laundering world, anything of value can be laundered. A player/resident may use his actual credit or debit card to purchase online money and then redeem those credits for actual money with another player in another country and in that country's unit of currency. Additionally, another question that will ultimately arise will be the issue of taxation or the lack thereof.

To create an account is just a matter of providing a name and email address. There is no verification of this information. To make the purchase of the Linden dollars a credit card may be used or a PayPal account.

³⁰³ CBC News, July 18, 2012, Gangster bling sought by B.C. Forfeiture Office; Prince George Citizen, Nov. 14, 2014, Dead gangster's bling forfeited to government

³⁰⁴ Royal Canadian Mounted Police. (2014). *Cybercrime: An overview of incidents and issues in Canada*. Ottawa: Royal Canadian Mounted Police.

A launderer opens up numerous separate virtual accounts, all using fictitious id. The accounts are all funded with the proceeds of an organized crime sports betting operation. The launderer can make purchases in the virtual world to and from himself by using those accounts as if he were purchasing assets from other residents. Subsequently, he may direct all his proceeds to an account that he maintains. He can then withdraw those funds either from the bank or using an ATM. It would be nearly impossible to trace the source of those funds.³⁰⁵

In recent years, cryptocurrency has been in the spotlight due to its status as an alternative to cash and other forms of payment. It has also faced scrutiny for its potential to help expedite illegal financial transactions and ML specifically. In 2014, the FATF published a report on virtual currencies and their potential to be used for ML and TF.

As decentralised, math-based virtual currencies – particularly Bitcoin – have garnered increasing attention, two popular narratives have emerged: (1) virtual currencies are the wave of the future for payment systems; and (2) virtual currencies provide a powerful new tool for criminals, terrorist financiers and other sanctions evaders.³⁰⁶

Convertible virtual currencies that can be exchanged for real money or other virtual currencies are potentially vulnerable to money laundering and terrorist financing abuse for many reasons ... First, they may allow greater anonymity than traditional noncash payment methods. Virtual currency systems can be traded on the Internet, are generally characterised by non-face-to-face customer relationships, and may permit anonymous funding (cash funding or third-party funding through virtual exchangers that do not properly identify the funding source). They may permit anonymous transfers, if sender and receiver are not adequately identified.³⁰⁷

Bitcoin can be obtained online or even through public ATMs. Wikipedia describes a Bitcoin ATM as “a kiosk that allows a person to purchase Bitcoin by using cash or debit card. Some Bitcoin ATMs offer bi-directional functionality enabling both the purchase of Bitcoin as well as the sale of Bitcoin for cash. In some cases, Bitcoin ATM providers require users to have an existing account to transact on the machine.”³⁰⁸ Despite Vancouver being the location of the first Bitcoin ATM, the Mayor mused about a ban on bitcoin ATMs, based on advice from local police who say they are ideal for money laundering.³⁰⁹

Case Study

In March 2018, a Vancouver businessman alleged to have sold encrypted BlackBerrys to international drug trafficking groups laundered tens of millions of dollars of his illicit profits using bank accounts, shell

³⁰⁵ Sullivan, J. (2008). Virtual money laundering and Fraud. BankInfoSecurity.com Internet web site.

³⁰⁶ Financial Action Task Force. (2014). *Virtual Currencies Key Definitions and Potential AML/CFT Risks*, Paris: FATF, 3

³⁰⁷ Financial Action Task Force, 2014, 9

³⁰⁸ Wikipedia, Bitcoin ATM, Internet web site, https://en.wikipedia.org/wiki/Bitcoin_ATM

³⁰⁹ Toronto Star, June 4, 2019, Vancouver considering a ban on bitcoin ATMs — which police say are ‘ideal’ for money laundering

companies, securities, safety deposit boxes, real estate, and cryptocurrencies. Vincent Ramos, who owned Phantom Security Communications, was arrested in Washington state on federal racketeering, drug-trafficking, conspiracy and ML charges. In an affidavit filed in court, an FBI special agent wrote, “I know that to launder its ill-gotten gains and maintain its members’ anonymity, the Phantom Secure enterprise uses crypto currencies, including Bitcoin, and shell companies.” Ramos was accused of maintaining several virtual bitcoin accounts held in the name of shell companies.³¹⁰

6.3. Professionals and Occupations Used to Facilitate Money Laundering

Professionals are used by criminal offenders and groups, wittingly and unwittingly, to launder the proceeds of crime. As CISC states in its 2008 report on organized crime in Canada, “Organized crime groups continue to exploit financial professionals, such as accountants, bank representatives, and lawyers to facilitate fraud or the movement of money through different stages of the money laundering process.”³¹¹ The range of professionals that come into contact with those laundering money is as diverse as the sectors of the legitimate economy used to this end. Lawyers, accountants, investment dealers, bank staff, car dealers, and real estate professionals, among others, provide expertise, knowledge, and access to other laundering vehicles, while adding an additional layer of anonymity for the criminal offender (especially in the case of lawyers). The professionals can also bring legitimacy to the criminal offender, the source of funds and the transactions. Most of the commercial and financial transactions professionals conduct on behalf of clients are invariably legal, although some of the methods used are expressly done for laundering purposes.³¹²

In general, the professionals and occupations that come into contact with the proceeds of crime can be separated into two broad categories. The first category includes front-line staff of retail businesses that come into contact with individuals laundering money, including bank tellers, real estate agents, automobile dealers, currency exchange staff, and jewellery store salespeople, among others. This second group includes those with more specialized skills, expertise, powers, and resources; within this category, lawyers are by far the most sought-after professional by money launderers.

According to Schneider’s 2004 survey of RCMP cases, because most of the cases in this survey involved the use of at least one sector of the legitimate economy to launder money, it was inevitable that the accused or an accomplice came in contact with a professional. The professionals that were predominately used to facilitate the laundering process, according to the survey of 149 proceeds of crime cases are deposit institution staff (101 cases), insurance agents or brokers (88 cases), lawyers (74 cases), real estate professionals (57 cases), automobile dealership staff (17 cases),⁴⁵ accountants (13 cases), currency exchange staff (7 cases), and securities dealers and portfolio managers (5 cases).³¹³

³¹⁰ Vancouver Sun, March 12, 2018, Vancouver man laundered ‘tens of millions’ of crime cash, U.S. alleges; Vancouver Sun, April 24, 2019, U.S. seeks to seize assets of Richmond criminal who aided international traffickers

³¹¹ Criminal Intelligence Service Canada. (2008). *2008 report on organized crime*. Ottawa: CISC.

³¹² Royal Canadian Mounted Police, 1993, 51

³¹³ Schneider, 2004, 65

Case Study

A common-law couple in B.C. used a variety of methods to launder revenue from cocaine trafficking, including deposit institutions, real estate, and the purchase of vehicles. Deposit institution staff facilitated numerous transactions and even advised nominees for the couple on how to conduct transactions that ostensibly would reduce any suspicion. A mortgage broker and a lawyer were used to help purchase and finance real property. The couple also relied on the advice of an accountant on how to invest funds with as little suspicion as possible. A car was also purchased through a dealership with cash.³¹⁴

In the majority of the cases examined, the professionals were innocently implicated; that is, they appear to have no knowledge of the source of the funds, nor were there any overt circumstances surrounding the money, the client, or the nature of the transaction that would have raised suspicions. However, in a smaller number of cases the transaction was clearly suspicious, such as the use of large amounts of cash to purchase big-ticket items; purchasing multiple bank drafts from different banks to personally finance the purchase of a home; requests that lawyers purchase assets on behalf of a client through legal trust accounts; and the incorporation of numerous companies that carried out no legitimate businesses, yet have significant amounts of cash deposited into corresponding bank accounts.³¹⁵

In his 2018 *Dirty Money* report, German acknowledges “it is difficult and often impossible, to launder large amounts of money without the assistance, witting or otherwise, of financial or professional intermediaries, including company formation agents, accountants and lawyers. Theirs is a precarious, yet lucrative position, often being recipients of money which seeks not to be found or be related back to its beneficial owner. An intermediary utilizes his or her skill in effecting the movement of funds at the direction of the client. The returns are almost always handsome, and the risks are often minimal.”³¹⁶

6.3.1. Lawyers

Lawyers are well-positioned to help satisfy the inherent objectives of ML. They can help set up companies and accounts and facilitate real estate transactions, among other services. They are particularly valued due to legal trust accounts and client-solicitor confidentiality, both of which can be of immense benefit when concealing the true ownership of dirty money and ill-gotten assets.

The involvement of lawyers in the ML process is the subject of a 2013 report published by the FATF. The report concludes “that criminals seek out the involvement of legal professionals in their ML/TF activities, sometimes because a legal professional is required to complete certain transactions, and sometimes to access specialized legal and notarial skills and services which could assist the laundering of the proceeds of crime and the funding of terrorism.” According to the FATF, money laundering is facilitated by lawyers primarily through the misuse of trust accounts, the purchase of real property, the creation and

³¹⁴ Schneider, 2004, 66

³¹⁵ Schneider, 2004, 65-66

³¹⁶ German, 2018, 46

management of trusts and companies, managing client affairs and making introductions, undertaking certain litigation, and setting up and managing charities.³¹⁷

In Schneider's 2004 analysis of RCMP proceeds of crime cases, lawyers came into contact with dirty money in 49.7 percent of all the cases. Lawyers are implicated in ML (both knowingly and unknowingly) primarily through their role as an intermediary in commercial or financial transactions.

More specifically, lawyers came into contact with the proceeds of crime mainly through their role in facilitating a real property transaction by an individual engaged in drug trafficking or an accomplice of the offender. In conducting these transactions, lawyers physically handled the cash proceeds of crime or monetary instruments provided by an offender or nominee, deposited these funds into bank accounts in-trust for clients, and issued cheques on behalf of clients for the purchase of real estate. To a lesser extent, lawyers were also used by offenders or their nominees to incorporate companies and purchase securities.

In most police cases involving lawyers, they appear to have been unaware of the criminal source of funds provided by an offender. However, the research also identified cases where a lawyer should have become suspicious of the circumstances surrounding a particular transaction, such as the use of a large amount of cash in small denominations to purchase real estate. Moreover, some lawyers appeared to offer services that were tailored expressly to satisfy the objectives of money laundering. This included converting substantial amounts of cash into less suspicious assets, concealing the criminal ownership of assets, incorporating numerous companies that carried out no commercial activities, fabricating or falsifying financial or legal documents, and transferring funds between bank accounts or between multiple trust account files established on behalf of a client and/or companies beneficially controlled by the client for no apparent commercial reason or financial gain.

In most cases, a lawyer was not consciously sought out by an offender in an attempt to facilitate money laundering, nor was there an explicit attempt by the offender to utilize legal services as a means to satisfy the objectives of money laundering. Instead, most lawyers came into contact with the proceeds of crime because the transaction conducted by the offender – most notably the purchase or sale of real property – commonly requires the services of a lawyer. In those cases where a lawyer appears to have been cognizant of the criminal source of funds, their services were often explicitly sought out and, in some cases, repeatedly used by offenders to launder their illegal revenue. This was most apparent with large-scale organized criminal conspiracies where police cases suggest the services of a lawyer are often essential because the greater the quantity of cash generated by the criminal enterprise, the greater the need for increased sophistication in the laundering scheme. In turn, this increased sophistication often requires the expertise and use of lawyers to navigate the proceeds of crime through complex legal, financial, and commercial dealings.

³¹⁷ Financial Action Task Force. (2013a). *Money laundering and terrorist financing vulnerabilities of legal professionals*. Paris: FATF, 4

In short, the nature of the involvement of lawyers in money laundering will be dictated by the complexity and sophistication of the laundering operation itself. In rudimentary schemes, such as those simply involving the purchase of a home, a lawyer is not sought out by the money launderer but instead is involved due to the necessity to involve legal professionals in real property transactions. In these cases, only a limited range of services are offered by the lawyer and they are not necessarily in a position to detect a suspicious transaction or client. In larger, more complex laundering schemes, there appears to be a concerted effort by criminal offenders to seek out and involve lawyers. In these cases, lawyers are more actively involved in providing a range of services specifically tailored to money laundering and often appear to be in a position where there is a greater chance that they are cognizant of the criminal source of the funds.³¹⁸

The following provides a summary of the services provided by lawyers as documented in the RCMP ML cases.

Facilitating Real Estate Transactions

The services provided to those clients investing illegal revenues into real estate were typical of what a lawyer offers to any client in a real property transaction: conducting lien searches, obtaining property tax information, calculating property tax payments for the buyer and seller, obtaining information on insurance requirements, preparing title transfer and mortgage documents, registering the transfer of title, and receiving and disbursing funds through the law firm's bank account as part of the real estate deal (including deposits, down payments, "cash-to-close," and mortgage financing).

Case study

A B.C. man used the proceeds from the sale of cocaine, marijuana, and steroids to buy several homes throughout British Columbia. The trafficker would regularly supply cash to his lawyer who would deposit the funds into his law firm's bank account in amounts averaging \$4,000 to \$5,000. When the balance of the account reached a certain level, the funds would be applied to the purchase of property (mostly homes used as marijuana grow-ops).³¹⁹

Incorporating Companies

Lawyers are used in many capacities to facilitate laundering schemes involving criminally-influenced companies. First, they are used to incorporate a company, which will include completing all the necessary paperwork, filing the appropriate incorporation and taxation documents with government regulatory bodies, and setting up bank accounts. Second, a lawyer may act as a director, officer, trustee, and, in some cases, the owner or a shareholder of the company. Third, if the company operates a legitimate business, the lawyer may manage its ongoing legal, administrative, and financial affairs. Fourth, lawyers have been involved in

³¹⁸ Schneider, 2004, 67

³¹⁹ Schneider, 2004, 68

fabricating accounting and legal documentation. Fifth, a law office may be used as the corporate address for a company controlled by a criminal entrepreneur. Sixth, lawyers have been used in some cases to deposit the cash proceeds of crime into bank accounts, including legal trust accounts, under the guise of legitimate revenue derived from a company.

Case study

Public documents seized as part of a police investigation into an international drug trafficking group based in Ontario showed that a Toronto lawyer incorporated 17 different companies that were eventually traced to members of the crime group. Upon further investigation, police discovered that the office of the law firm was listed as the corporate address for many of the companies. The lawyer was also a director of two of the businesses he helped establish. During their investigation, police learned that two members of this crime group were to go to their lawyer's office "to sign for the new companies." Records obtained from the Ontario Ministry of Consumers and Corporate Relations show that a week later, two limited companies were incorporated listing both as directors.³²⁰

Legal Trust Accounts

One of the powers that lawyers have at their disposal – and which is regularly used and abused for ML purposes – is to hold money or assets "in trust" for clients. This enables lawyers to conduct transactions and administer the assets on behalf of a client. As the RCMP cases show, criminal revenues are placed in a law firm's bank account, in trust for an offender, a nominee, or a company associated with the offender. In the majority of the police cases, these transactions were used as part of a lawyer's duties in collecting and disbursing payments for real property on behalf of a client. Regardless, the significance of a legal trust account in the context of an ML operation should not be understated: it can be used as part of the initial first step in converting the cash proceeds of crime into other less suspicious assets, it can serve to help hide criminal ownership of funds or other assets, and it can be used as an essential link between different ML vehicles.

Case Study

An Ontario-based drug trafficker admitted to police that he purposely used legal trust accounts to help block access to information about the true ownership of the funds in the account. He confessed that he would provide cash to his lawyer who would deposit it into the law firm's trust account. Every few days, the lawyer would withdraw the money from the trust account and deposit the funds into the various bank accounts controlled by the drug trafficker. This was often done by issuing cheques against the trust account, which would be payable to a company associated with the trafficker. Most cheques were for \$2,000 to avoid suspicion. The small

³²⁰ Schneider, 2004, 68-69

deposits and withdrawals, combined with the use of cheques issued from his lawyer's trust account, helped to circumvent cash or suspicious transaction declarations at financial institutions.³²¹

Handling Cash

In some of the police cases, a lawyer (or a delegate within a law firm) physically handled cash directly generated from criminal activities. In most of these cases, the cash was provided to a lawyer in the context of a real estate transaction and these funds were deposited in trust for the client. However, in other cases, there was no real estate transaction involved and there was no rational explanation as to why a lawyer was handling large amounts of cash provided by a client.

Case Studies

During his trial on proceeds of crime charges, lawyer Basil Rolfe acknowledged that he had received more than \$8 million – including large amounts of cash – from George Burden and others involved in a hashish importation conspiracy. A police investigation identified numerous cash deposits by Rolfe into a trust account for shell companies he had incorporated for Burden and his associates. These deposits were often less than \$10,000 and consisted mostly of 20-dollar bills. Deposits made by Rolfe were often followed by immediate withdrawals, account transfers, or wire transfers to other bank accounts in Canada or overseas. Rolfe testified in court that he had received a paper bag containing \$25,000 in 20-dollar bills from Burden as a down payment on a house in Vancouver, which he turned over to the real estate agent representing the vendors of the home. The real estate agent stated in court that Rolfe asked if the remainder of the sale could be paid in cash.³²²

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In 1995, Lawyer Joseph Lagana was sentenced to 13 years in prison for masterminding a \$47-million ML ring that unknowingly used the services of an RCMP undercover MSB in downtown Montreal. Lagana was described in court as the right-hand man of reputed Montreal Mafia boss Vito Rizzuto. Undercover RCMP officers who worked at the bogus currency exchange took in bags full of cash delivered to it almost daily by Lagana and others. Lagana was described in court as the brains behind the operation and the only man in direct contact with Rizzuto. Two other lawyers who both worked in Lagana's firm, also pleaded guilty in the case.³²³

Coordinating International Transactions

The truly sophisticated laundering operation is often characterized by the international movement of funds, including the use of financial haven countries, which often necessitate the use of legal

³²¹ Schneider, 2004, 70-71

³²² Schneider, 2004, 72

³²³ Montreal Gazette, Jun 30, 1995, Lawyer handed 13-year prison sentence for overseeing money-laundering scheme

professionals. Lawyers will be used to incorporate companies, set up bank accounts, or establish trusteeships in off-shore financial centres and in some cases also helped funnel illicit money to laundering vehicles.

Case Study

Cash accumulated from a Canadian drug trafficking operation would be taken to a retail currency exchange business by a courier where it would be converted to a bearer cheque. This cheque would be turned over to Donavon Blakeman, a retired lawyer, who would personally carry it to Jersey in the Chanel Islands to be deposited in one of the many accounts he set up. In other instances, Blakeman would wire transfer funds to bank accounts in the Chanel Islands and other financial haven countries. Many of the bank accounts would be registered in the name of a shell company incorporated by Blakeman. Over the span of four years, the lawyer set up 11 companies in the Chanel Islands where he would install himself and other nominees on the board of directors. The sanitized funds would eventually be sent back to Canada through wire transfers disguised as loans to companies established by Blakeman there.³²⁴

6.3.2. Accountants

As with a legitimate company, criminal entrepreneurs need to keep track of their revenue and expenses, as well as assets and liabilities. Ideally, this job is best carried out by a bookkeeper or accountant. A principal job of an accountant working for a successful criminal enterprise is to keep track of the volumes of cash generated and spent.

Case Studies

The need for accountants by large-scale criminal operations was made vivid during a trial of Hells Angels' members and associates in Quebec in the early 2000s. Stephane Sirois, a former member of the Rockers, a biker gang affiliated with the Nomads Chapter of the Hells Angels, testified in court that the Quebec Nomads Chapter purchased as much as 1,000 kilograms of cocaine at a time, which would then be distributed to members of the Nomads and other Hells Angels' chapters for wholesale distribution. The drug revenues were collected by couriers who carried bags of cash to nondescript apartments where they would be counted. By the end of their investigation, police had seized \$5.5 million in cash from safes located at various apartments. Police also confiscated accounting spreadsheets showing that in one eight-month period in 2000, the Nomads made \$92 million from the sale of cocaine. In one police surveillance recording of Sirois he is heard asking another Rocker named Jean-Guy Bourgoin if he knows of a good accountant. Bourgoin replies with the name of Georges Therrien in Laval. "He's one hell of a good guy," according to Bourgoin. "He worked 25 years for the government. And he was Rizzuto's

³²⁴ Globe and Mail, Nov. 23, 1990, Money launderer disbarred by society Lawyer linked to traffickers.

accountant – he’s always worked for that Italian clique. You give him cold cash – ‘Here, wash this for me’ – and he will play with your money.”³²⁵

&&&

An investigation into Philip Dickens revealed that he had long been active in the multi-kilo trafficking of cannabis, cocaine, and anabolic steroids. Dickens was the beneficial owner of more than 20 homes and numerous businesses, many of which were owned by holding companies for which Dickens was listed as the sole director. Documents seized by police as part of the investigation included correspondence between Dickens and two chartered accountants regarding work performed by them for Dickens and businesses he controlled. Some examples of the correspondence are summarized below. All companies listed below were controlled by Dickens, including Great Expectations Holdings Ltd., which was the registered owner of several other companies.

Date	Correspondence
94.08.22	Letter from Dickens including a cheque for \$500 payable to Accountant #1
94.09.14	Letter from Dickens including a cheque for \$1,000 payable to Accountant #1 with the memo “for accounting”
95.01.21	Balance sheet of Hummer Appliance Rebuilders
95.03.22	Cheque for \$3,000 payable to Accountant #1 with the memo “accounting”
95.04.09	Letter from Revenue Canada to Accountant #1 regarding Dickens' s income tax returns for 1989 and 1991
96.01.25	Financial statement as of 92.07.31 for Hummer Appliance Rebuilders
96.02.11	Letter from Dickens including a cheque for \$1,000 payable to Accountant #1 on Hummer Appliance Rebuilders account
96.06.12	Statement prepared by Accountant #1 regarding the purchase by Dickens of four properties
97.03.11	Letter from Accountant #1 to a drug trafficking associate of Dickens regarding his 1994 income tax returns
97.03.19	Letter to Accountant #1 from Dickens’s lawyer regarding a mortgage on a property owned by Great Expectations Holdings Ltd.
97.06.02	Revenue Canada notice of assessment regarding Dickens’s wife sent to Accountant #1
98.02.31	Financial statement of Graduate Developments Ltd. Prepared by Accountant #2
98.04.14	Letter from Accountant #1 to a drug trafficking associate of Dickens regarding personal income taxes
98.06.03	Financial statement for Great Expectations Holdings Ltd. prepared by Accountant #1
98.08.19	Balance sheet of Great Expectations Holdings Ltd. Prepared by Accountant #1
99.01.24	Facsimile transmitted to a registered director of Graduate Developments Ltd. from Accountant #2
99.03.17	Letter from Dickens’s lawyer to Accountant #2 regarding money held in trust for Great Expectations Holdings Ltd.
99.05.29	Financial statement as of 97.04.30 for Great Expectations Holdings Ltd. prepared by Accountant #2
99.10.08	Letter from an employee working for Accountant #2 regarding a mortgage owed by Great Expectations Holdings Ltd.

³²⁵ Montreal Gazette, July 18, 2002, Hells bought cocaine in bulk; Globe and Mail, August 12, 2002, Judges win new rules after failed biker trial

The lead police investigator working on this file noted that both accountants had prepared comprehensive financial statements for the companies owned by Dickens. The investigator concluded, “It was my belief that in order to prepare those reports, it would be necessary for each accounting firm to be provided by Dickens a thorough disclosure of his financial transactions.”³²⁶

6.4. Criminal Methods and Techniques: Money Laundering in the Underground Economy

While much of the illicit money produced in Canada is laundered through the legitimate economy using legal commercial and financial transactions and assets, there are also groups and individuals that will facilitate ML through surreptitious, unregulated, and largely illegal services. In addition, there are certain (international) systems – some centuries old, such as informal value transfer systems (or alternate remittance systems) – that deliberately operate in the underground economy and are highly amenable and susceptible to money laundering and terrorist financing. For the sake of analysis, this section demarcates ML in the informal economy into four categories: (i) ML specialists (professional money launderers), (ii) corruption and internal conspiracies, (iii) informal value transfer systems and (iv) trade-based money laundering. It is important to note that these four categories are not mutually exclusive, but interconnected; professional money launderers employ informal value transfer systems, which in turn can incorporate trade-based ML.

6.4.1. Money Laundering Specialists / Professional Money Launderers

In its 2019 annual report on organized crime, CISC discusses “money laundering service providers” who “coordinate and move large sums of money to legitimize criminal proceeds on behalf of Canadian and international OCGs.” CISC also acknowledges the recent money laundering controversies in B.C.

Several organized crime groups considered as high-level threats (HLTs) are involved in money laundering as a primary criminal activity or maintain associations to professional money laundering service providers with extensive ties to South East Asia, and are potentially associated to Triads based in China. At least four HLTs are linked to money launderers for large international organized crime networks, providing laundering services for domestic and international drug traffickers. One high-level network based in British Columbia and Ontario, for example, represents several key service providers nationally and internationally, conducting self-laundering, and providing third-party money laundering services to OCGs by conducting complex money laundering operations through their exploitation of casinos, underground banking systems, illegal gaming houses/sites, nominees/shell companies, trade-based money laundering, and real estate investments.³²⁷

(See the section entitled “Vancouver Model” for more detailed information on this case and the central role played by professional money launderers.)

³²⁶ Schneider, 2004, 74-75

³²⁷ Criminal Intelligence Service Canada. (2019). *Public report on organized crime in Canada, 2019*. Ottawa: Criminal Intelligence Service Canada

In a 2018 report by the House of Commons Standing Committee on Finance entitled *Confronting money laundering and terrorist financing*, RCMP officials testified that professional money launderers (PMLs) are aware that in Canada they need to be linked to a predicate criminal offence to be convicted of ML; as such they structure their criminal business accordingly to insulate them from the predicate offences.³²⁸

A 2018 report by the FATF describes the functions and characteristics that define a PML, which they characterize as those individuals, organizations and networks that are involved in “third-party” laundering for a fee or commission.

As the main purpose of PMLs is to facilitate money laundering, they are rarely involved in the proceeds-generating illegal activities. Instead, they provide expertise to disguise the nature, source, location, ownership, control, origin and/or destination of funds to avoid detection. PMLs generally do not differentiate between drug dealers, fraudsters, human traffickers or any other criminal with a need to move or conceal ill-gotten gains. These are all potential PML clients. PMLs operate under numerous business models and may be individuals; criminal organizations with a clear structure and hierarchy; or networks of loosely affiliated members.

PMLs may provide the entire infrastructure for complex money laundering schemes (e.g. a ‘full service’) or construct a unique scheme tailored to the specific needs of a client that wishes to launder the proceeds of crime. These PMLs provide a menu of generally applicable services, with the result that the same laundering techniques (and potentially the same financial channels and routes) may be used for the benefit of multiple organised crime groups. As such, professional money laundering networks may act transnationally in order to exploit vulnerabilities in countries and particular businesses, financial institutions, or designated non-financial businesses or professions.³²⁹

In its 2015 report, entitled *Assessment of inherent risks in money laundering and terrorist financing in Canada*, Finance Canada examines what it calls “third-party money laundering.”

Large-scale and sophisticated money laundering operations in Canada, notably those connected to transnational OCGs, frequently involve third-party money launderers, namely professional money launderers, nominees or money mules. Of the three, professional money launderers pose the greatest threat both in terms of laundering domestically generated proceeds of crime as well as laundering foreign-generated proceeds through Canada (and through its financial institutions). Professional money launderers specialize in laundering proceeds of crime and generally offer their services to criminals for a fee. These individuals are in the business of laundering large sums of money and by their very nature have the sophistication and capability to support complex, sustainable and long-term ML operations. As a group, they use many different methods and techniques, sometimes within the same scheme, to launder money that is challenging to detect. The professional money launderers are of principal concern since they are often the masterminds behind large-scale

³²⁸ Standing Committee on Finance, House of Commons, Canada (42nd Parliament, 1st Session). (2018). *Confronting money laundering and terrorist financing: Moving Canada forward*. Report of the Standing Committee on Finance. Ottawa: Parliament of Canada, House of Commons, 46

³²⁹ Financial Action Task Force. (2018). *Professional money laundering*. Paris: FATF

money laundering schemes and are frequently used by the most powerful transnational OCGs in Canada.³³⁰

In its 1993 national drug intelligence report, the RCMP acknowledges that some criminal organizations have employed professionals who specialize in providing ML services.

Parallel money networks are established to channel payments and/or launder illicit funds. In such a compartmentalized structure, professional money launderers with no involvement in drug trafficking per se play a pivotal role in the planning and execution of many large-scale laundering operations. In some instances, they will set up companies in Canada and abroad to facilitate the movement of proceeds via loans, investments, or the purchase of goods and services. In other cases, professional launderers will follow directives and pick up large sums of cash and forward cheques, money orders or letters of credit to personal and corporate accounts without knowing the origin and the final destination of the funds.³³¹

The RCMP also found that certain drug trafficking organizations channelled illicit funds through money pipelines established by other crime groups.

Larger organizations sold their money laundering services to smaller ones and commingled proceeds as they were transferred into various accounts. Some of the more powerful Canadian trafficking organizations also introduced less prominent ones to major foreign drug suppliers and underwrote the drug purchases on their behalf. By acting in such a way, powerful organizations distance themselves from any actual drug trafficking activity and shift risks onto others. As brokers, they receive a percentage of the profits and most probably handle all laundering aspects of the transaction.³³²

Case Study

One of the largest and more sophisticated PMLs was the reputed Caruana/Cuntrera organization, which was affiliated with the Rizzuto Mafia family in Montreal. Headed by Alfonso Caruana, the group was heavily involved in the importation of cocaine and Southwest Asian heroin into Canada since the late 1970s. In addition, the group is alleged to have provided ML and international cash delivery services for itself, the Rizzuto family, and other offenders and crime groups until Canadian police successfully dismantled their operations through Project Omerta in 2000. Caruana's main role was in the financial end of the organization and relied on numerous bank accounts, internal conspiracies at banks, real estate transactions, cash smuggling, and shell companies to launder the proceeds of crime.

While the core group was small, they are alleged to have an expansive network of associates throughout the world to facilitate both drug trafficking and ML, leading the Italian police to call them, "The Rothschilds of the Mafia."

Their international laundering operation moved drug money from bank accounts in Toronto and Montreal to Miami, Houston, Mexico City, and then to numbered accounts in Lugano, Switzerland, and from there, to Columbia (to purchase cocaine). In 1981, the RCMP detected \$21.6 million that passed through Alfonso Caruana's bank accounts in the course of only a few months. At the same time, they relied heavily on more rudimentary methods to launder money and to pay for drugs on the international

³³⁰ Finance Canada, 2015, 19

³³¹ Royal Canadian Mounted Police, 1993, 51

³³² Royal Canadian Mounted Police, 1993, 52

market. Oreste Pagano, a member of the Camorra Mafia based in Brescia, Italy, and a key associate of the group told police that he and Alfonso Caruana preferred to make cash transactions from “hand to hand.”

Millions of dollars of cash were physically transported across North America and various other countries. Between 1978 and 1984, police estimated that Giuseppe Cuffaro, one of the group’s main money launderers, moved more than (US)\$20 million in cash from Montreal to Switzerland. On November 27, 1978, Alfonso Caruana and Cuffaro arrived in Zurich on a Swiss Air flight from Montreal and were fined for failing to declare (US)\$600,000 discovered in false-bottom suitcases. Caruana paid a small fine and was released.

Between 1991 and 1998, Colombia cocaine suppliers provided Alfonso Caruana with two cocaine shipments of 4,526 kilograms smuggled into Canada and 8,200 kilograms smuggled into Italy. Pagano estimated that each of these shipments netted the organization (CDN)\$36 million. Cash payments for the narcotics would be transported to Pagano by vehicle from Canada to Miami to pay for the drugs.³³³

6.4.2. Corruption and Internal Conspiracies

The corruption of professionals in both the public and private sectors has historically been an integral tactical imperative of organized crime. One of the most effective ways to consummate the laundering process is to engage the cooperation of corrupt professionals and industry insiders or for a criminal enterprise to place operatives within a financial or commercial institution to be used for ML. By doing so, the offender can bypass scrutiny, falsify documents, and avoid mandatory transaction reporting requirements.³³⁴

Case Study

The Caruana-Cuntrera organization relied heavily on professionals such as lawyers, bankers, financial advisors, and accountants, to facilitate their money laundering. Police suspected that some of the professionals providing services to the group were well aware of the source of the funds and undertook transactions that were expressly meant to exorcise the funds of their criminal past.

Members of the Caruana-Cuntrera organization enjoyed a particularly close relationship with some bank branches in Montreal. One of the most accommodating bankers was Aldo Tucci, the manager of the City and District Savings Bank in Montreal, where much of the group’s earliest laundering activity was detected. The RCMP estimated that between 1978 and 1981, this branch manager helped launder approximately (US)\$15 million. By the end of 1981, senior management at the bank refused to service members of the Caruana-Cuntrera group, ordered all their accounts closed, and had Tucci transferred to another branch. By mid-1984, Tucci was asked to resign from his new position because, although he was

³³³ Nicaso, A. and Lamothe, L. (2000). *Bloodlines: The rise and fall of Mafia’s royal family*. Toronto: Harper Collins; Maclean's, Oct. 31, 1988, A dangerous trail: Police pursue the profits from drug sales; Toronto Star, May 4, 2000, The bust that almost wasn't. Two-year probe of Caruanas cost \$8.8 million; Marini, R. (2000). *Italian Organized Crime. Money Laundering Techniques*. RCMP Toronto Integrated Proceeds of Crime Unit. (unpublished); KPMG. *1998/99 Performance and Accountability Review of the Anti-smuggling Initiative Volume I. Technical Report*. Report submitted to the Department of the Solicitor General, 1999

³³⁴ Schneider, 2004, 86

paid as a bank manager, he spent most of the day managing newly-opened companies for members of the Caruana-Cuntrera group. Police later discovered he was registered as president for some of these companies and a Revenue Canada audit of Tucci for the years 1981 to 1985 showed that he had undeclared revenues of \$320,000.

At a National Bank branch located on St. Michel Blvd. in Montreal, Giuseppe Cuffaro had co-opted the Italian bank manager as early as 1979. Between November 1981 and October 1982, police estimated that approximately (US)\$14 million in cash was laundered through this bank branch. Assisting Cuffaro was Pasquale Caruana and on many occasions the two physically transported bags and suitcases full of U.S. cash into the bank. By 1982, Cuffaro was depositing such large amounts of cash so frequently that he was asked to bring the cash already counted and in bundles of \$5,000 to accelerate the deposits. He willingly complied.³³⁵

6.4.3. Informal Value Transfer System

German describes the IVTS (IVTS) as “unlicensed operations which rely on political, geographic, family, or close personal relationships, in order to conduct business.”

Their clientele tends to be from a specific ethnic group. The U.K., Canada, and the U.S. all possess underground bankers who perform unregulated banking transactions between countries, often seeking to avoid currency import or export restrictions. Also referred to as alternate remittance (or value) systems, some of the best known are the hawala (India), hundi (Pakistan), and the chit and chop (China). In many cases, underground bankers exist due to a mistrust among the populace for mainstream financial institutions. Still others are the product of long standing and strong social and cultural factors.

The irony of underground banking is that in some countries, underground banking is practiced quite openly. Many developing world countries, which do not have established banking systems, are heavily reliant on them. War ravaged countries are particularly dependant. In some places, international aid organizations use these bankers to pay employees and to transmit funds. However, some underground bankers also transmit the proceeds of corruption and bribery. Therein lies the problem.³³⁶

An IVTS generally takes place outside of the conventional banking system and is used to transfer funds (or more specifically “value”) between different countries. As such, it has emerged as a particularly prevalent international ML method. The people and groups that coordinate this method essentially operate underground money service businesses and many can easily be considered professional money launderers.

For Cassara, central to understanding how an IVTS operates is the concept of “value.” He emphasizes that “we must put aside our linear Western thought process. Illicit money is not always represented by

³³⁵ Nicaso, A. and Lamothe, L. (2000). *Bloodlines: The rise and fall of Mafia's royal family*. Toronto: Harper Collins; Schneider, 2004, 87-88

³³⁶ German, 2018, 36-37

cash, checks, or electronic data in a wire transfer, or new payment methods such as stored-value cards, cell phones, or cyber-currency. The value represented by trade goods – and the accompanying documentation both genuine and fictitious— can also represent the transfer of illicit funds and value.”³³⁷

An IVTS works best with two informal MSBs: one in the country that is the source of the illicit funds to be transferred and the other in the country that is the destination for the funds. The MSB in the source country serves an individual or organization that wants to send, for example, \$1 million to the destination country. The MSB in the source country then coordinates with a counterpart in the destination country who makes available the \$1 million (often in cash). Once this money is provided to the client in the destination country the two MSBs work out a settlement so that the MSB in the destination country is reimbursed. The account between the two can be settled in any number of ways, including the smuggling of bulk cash, electronic bank transfers, and trade-based money laundering (see below for more details).³³⁸

Case Study

A sophisticated ML operation with international connections was responsible for washing hundreds of millions of dollars in Canada and abroad until it was dismantled in early 2019. RCMP officials told a news conference in February that its investigation, code-named Project Collector, uncovered a network with cells in Montreal and Toronto that collected and laundered money primarily from Montreal crime groups involved in drug trafficking.

“We believe with the amounts we saw being transited through the network we just dismantled, this network was occupying a primary place in the ML world in Montreal,” Sgt. Francois-Olivier Myette of the RCMP said.

The ML operation began in 2013 and the network used an IVTS to launder the illicit drug proceeds internationally. As Sgt. Myette explained the network provided the IVTS to transfer value to drug-exporting countries by “taking money in one jurisdiction and then retrieving money in another jurisdiction without actual transfers.” The RCMP did not provide further details on how the value was transferred internationally but did indicate that the network used connections in Lebanon, the United Arab Emirates, Iran, the United States and China to launder money before returning it to drug-exporting countries, such as Colombia and Mexico.

According to an RCMP news release, significant seizures of drugs, money and assets were seized.

During the investigation and the searches, police officers seized significant quantities of drugs, such as cannabis, cocaine, hashish and methamphetamine, for a market value of close to \$2.2 million. Bank accounts and money in Canadian and foreign currencies were also seized, for a value of \$8.7 million. The CRA also proceeded with the restraint of six properties, of an estimated value of \$15 million. The RCMP also seized a considered

³³⁷ Cassara, J. A. (2017). Trade-based money laundering: The next frontier in international money laundering enforcement. New York: Wiley and SAS Business Series, 80

³³⁸ Cassara, 2017, 80

offence-related property of an estimated value of \$7 million. To date, the estimated value of the assets that were seized or restrained is more than \$32.8 million.

Myette explained the two-year investigation was triggered in 2016 by a tip from DEA agents who observed hundreds of clandestine exchanges of bags cash containing between \$250,000 to \$500,000.³⁴⁰

6.4.4. Trade-Based Money Laundering

Trade-Based Money Laundering (TBML) has been defined by the FATF as:

The process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimize their illegal origins or finance their activities. In practice, this can be achieved through the misrepresentation of the price, quantity or quality of imports or exports. Moreover, trade-based money laundering techniques vary in complexity and are frequently used in combination with other money laundering techniques to further obscure the money trail.³⁴¹

The FATF concludes that TBML “represents an important channel of criminal activity and, given the growth of world trade, an increasingly important money laundering and terrorist financing vulnerability.”³⁴²

TBML is a variation of an IVTS and is used expressly for illicit purposes, although like other laundering methods it does attempt to take advantage of legitimate international commercial trade. As the Economist magazine puts it, TBML is “the misuse of commerce to move money across borders.”³⁴³

The FATF says there are four basic variations of TBML.

Over- and Under-Invoicing of Goods and Services – “By invoicing the good or service at a price below the fair market price, the exporter is able to transfer value to the importer, as the payment for the good or service will be lower than the value that the importer receives when it is sold on the open market. Alternatively, by invoicing the good or service at a price above the fair market price, the exporter is able to receive value from the importer, as the payment for the good or service is higher than the value that the importer will receive when it is sold on the open market.”

Multiple Invoicing of Goods and Services – Another TCML technique to launder funds involves “issuing more than one invoice for the same international trade transaction. By invoicing the same good or service more than once, a money launderer or terrorist financier can justify multiple payments for the same shipment of goods or delivery of services. Employing a number of different financial institutions to

³⁴⁰ RCMP News Release, February 12, 2019, Collecteur Project: a vast money laundering network dismantled; Montreal Gazette, February 11, 2019, Drugs and cash seized in RCMP money-laundering raids in Montreal and Toronto; Globe and Mail, February 12, 2019, Charges laid against 17 people allegedly involved in money laundering network in Toronto, Montreal; Canadian Press, February 13, 2019, RCMP says dismantled network laundered tens of millions in drug money; Canadian Press, February 13, 2019, RCMP arrests 15 people allegedly tied to international money laundering scheme

³⁴¹ Financial Action Task Force. (2008b). *Best Practices on Trade Based Money Laundering*, Paris: FATF, 1

³⁴² Financial Action Task Force, 2008b, 1

³⁴³ The Economist, May 3, 2014, Trade and money laundering – Uncontained

make these additional payments can further increase the level of complexity surrounding such transactions.”

Over- and Under-Shipments of Goods and Services – “In addition to manipulating export and import prices, a money launderer can overstate or understate the quantity of goods being shipped or services being provided. In the extreme, an exporter may not ship any goods at all, but simply collude with an importer to ensure that all shipping and customs documents associated with this so-called “phantom shipment” are routinely processed. Banks and other financial institutions may unknowingly be involved in the provision of trade financing for these phantom shipments.”

Falsely described goods and services – “In addition to manipulating export and import prices, a money launderer can misrepresent the quality or type of a good or service. For example, an exporter may ship a relatively inexpensive good and falsely invoice it as a more expensive item or an entirely different item. This creates a discrepancy between what appears on the shipping and customs documents and what is actually shipped. The use of false descriptions can also be used in services, such as financial advice, consulting services, and market research. In practice, the fair market value of these services can present additional valuation difficulties.”³⁴⁴

Perhaps most famous of the TBML methods is the Black Market Peso Exchange which is attributed to the Colombian cartels in their efforts to launder the vast profits from cocaine trafficking in the 1980s and 1990s. According to the FATF, the mechanics of a simple black market peso arrangement can be set out in the following steps.

First, the Colombian drug cartel smuggles illegal drugs into the United States and sells them for cash.

Second, the drug cartel arranges to sell the US dollars at a discount to a peso broker for Colombian pesos.

Third, the peso broker pays the drug cartel with pesos from his bank account in Colombia (which eliminates the drug cartel from any further involvement in the arrangement).

Fourth, the peso broker structures or “smurfs” the US currency into the US banking system to avoid reporting requirements and consolidates this money in his US bank account.

Fifth, the peso broker identifies a Colombian importer that needs US dollars to purchase goods from a US exporter.

Sixth, the peso broker arranges to pay the US exporter (on behalf of the Colombian importer) from his US bank account.

Seventh, the US exporter ships the goods to Colombia.

Finally, the Colombian importer sells the goods (often high-value items such as personal computers, consumer electronics and household appliances) for pesos and repays the peso broker his or her supply of pesos.³⁴⁵

³⁴⁴ Financial Action Task Force, 2008b, 4-6

³⁴⁵ Financial Action Task Force, 2008, 7-8

TBML can be used to settle accounts between informal MSBs in different countries; that is, between the originator of the funds in the source country and the MSB that made cash available in the destination country. For example, a Chinese national working with an MSB in the source country “can send money out of China by underinvoicing exports and overvaluing imports. They may, for example, sell \$10,000 worth of garments abroad, show an invoice for \$8,000 to authorities, and keep the remainder overseas.”³⁴⁶

7. The Vancouver Model

On July 22, 2015, a Royal Canadian Mounted Police (RCMP) officer advised a British Columbia Lottery Corporation (BCLC) investigator that police officers had been looking for a ‘minnow’ and found a ‘whale’. The officer was referring to an ongoing investigation involving a money service bureau, a casino and the proceeds of crime. The BCLC investigator notified his superiors and Gaming Policy and Enforcement Branch (GPEB)’s acting General Manager. GPEB investigators manually prepared an Excel spreadsheet showing the cash buy-ins at one casino for one month and were shocked to learn that \$13.5 million had passed through its cash cages, mostly in \$20 denomination bills, the preferred currency of drug traffickers.³⁴⁷

Police did not know it at the time, but they had come across an alleged major international criminal conspiracy characterized by a sophisticated underground MSB that laundered billions of dollars from drug trafficking and other organized crimes through casinos, real estate, and informal value transfer systems. At the centre of this alleged massive ML operation, according to police, was the Richmond-based Silver International Investments Ltd. and Paul King Jin, who was known locally as a spa owner but who also emerged as the main suspect in the investigation. Jin and Silver International were accused of being at the vortex of one of the most extensive ML operations in the history of British Columbia allegedly providing informal value transfer services to wealthy Chinese nationals looking to spirit funds to Canada; taking bags of drug cash from various criminal organizations for laundering, providing this cash to gamblers to launder at Lower Mainland casinos, while lending the funds to home buyers and developers looking to invest in the real estate market.

As an MSB allegedly specializing in money laundering, German writes that Jin and Silver International “provided a range of financial services to their customers, including instructions on methods to layer money, repatriate funds back to Canada, acquire reverse and fraudulent loans, and conduct real estate transactions.”³⁴⁸

The alleged ML network had been operating since at least 2011 and estimates of the amount of money it was said to have laundered in B.C. range from \$100 million to \$1 billion a year.³⁴⁹ According to a report issued by the FATF in July 2018, “It is estimated that they laundered over (CDN) \$1 billion per year

³⁴⁶ Cassara, 2017, 79

³⁴⁷ German, 2018, 10

³⁴⁸ German, 2018, 136-137

³⁴⁹ CBC News, January 11, 2019, Secret report on 'horrendous' money laundering in B.C. casinos comes to light

through an underground banking network, involving legal and illegal casinos, money value transfer services and asset procurement.”³⁵⁰

In a presentation to the New South Wales Police regarding various tactics employed by criminal gangs in Guangdong, China to enable the illegal export of money, drugs and counterfeit goods from that country, Professor John Langdale of Macquarie University in Australia unpacked the many elements of this alleged Canadian ML operation, referring to it as the “Vancouver Model.”³⁵¹

The Vancouver Model is a moniker applied to the alleged money transfer and laundering operation by Jin and Silver International to benefit wealthy Chinese nationals who are trying to (unlawfully) transfer money to Canada from China and criminal organizations involved in drug trafficking. The specific elements of the Vancouver Model are detailed on the subsequent pages. By way of summary, the main activities purportedly undertaken by Jin and associates, according to the literature, were as follows:

- facilitating capital flight from China to Canada (via IVTS) by wealthy Chinese nationals, corrupt government officials, and financial crime offenders,
- collecting the cash proceeds of drug trafficking from other criminal organizations,
- using the drug money to supply, in Canada, the cash equivalent of the value of the funds to be illegally transferred out of China,
- laundering the drug cash through two main routes: casinos (gamblers were recruited and provided with drug cash to purchase chips which are then redeemed for a casino-issued cheque) and real estate (private loans and mortgages were provided, often in cash, to finance real estate purchases), and
- transferring illicit funds and value to and from China as well as other countries, including Mexico and Columbia, in order to (i) settle the accounts between Jin and those who were recipients of the drug cash and (ii) finance the purchase drugs in source countries.

Jin and Silver International were said to benefit financially from this alleged conspiracy through commissions on all transactions conducted, interest on loans provided, as well as claims against properties that have been provided mortgage financing by Jin and Silver International. In this respect, according to German, the Vancouver Model “adopts an old business strategy by ‘clipping the ticket both ways,’ meaning that it will double its share of profits by providing services at both ends of the same transaction. The ‘genius’ of the scheme is the ability to achieve two objectives and be paid for both in the same transaction.”³⁵² In other words, the Vancouver Model works to fund the predicate offences (drug trafficking) while also laundering the proceeds of these offences.

Capital Flight

The capital flight component of the Vancouver Model refers to wealthy Chinese nationals who (unlawfully) move portions of their wealth to Canada by evading China’s strict currency export laws. This includes corrupt government officials as well as white-collar criminal offenders who are eager to transfer the proceeds of their crimes out of the country (see Section 4.4 for more details on capital flight

³⁵⁰ As cited Globe and Mail, January 18, 2019, New money-laundering figures come as a shock to B.C., Eby says

³⁵¹ Langdale, J. (2017). *Impact of Chinese transnational crime on Australia: Intelligence perspectives*. Lecture to the New South Wales Police Force’s intelligence conference, Nov. 2, 2017

³⁵² German, 2018, 37-38

from China). Much of the capital flight money from China was allegedly sent to Canada through an informal value transfer system. This IVTS is part of the historical Chinese informal banking system known as *fei-chien* (“flying money”). According to Cassara,

The Chinese informal banking system of yesteryear has taken on both new breadth and sophistication. It offers cheap, efficient, swift, and low-risk cross-border fund transfers of hundreds of millions of dollars each day. Black market banks in China and overseas never advertise their services. Similar to hawala storefronts, they operate ostensibly as tea shops, cellphone vendors, or snack kiosks. Generally, they attract clients by word of mouth. Their service is to provide cash for cash. They can move much faster and more efficiently than regulated Chinese banks.³⁵³

In the Vancouver Model, the Chinese national seeking to spirit money out of the country allegedly provides the funds to a *fei-chien* broker in China who, through an IVTS, coordinates with Jin and associates in B.C. who makes the cash equivalent of the wealth being transferred out of China available locally.³⁵⁴

Cash Provided in Canada is the Proceeds of Drug Trafficking

Both Jin and Silver International have been accused of using the proceeds of illegal activities, including drug trafficking, illegal gambling, and extortion, as the source of the cash provided to the wealthy Chinese nationals in Canada (with the cash allegedly first being laundered through casinos). As such, Jin and associates were accused of servicing a drug trafficking organization by laundering their proceeds of crime while also servicing the wealthy Chinese nationals by providing them with funds in Canada.³⁵⁵

Police claim that bags and suitcases full cash were delivered to the office of Silver International and other meeting spots at an average rate of \$1.5 million a day. The ML operation reportedly was servicing 40 different criminal organizations, including Chinese organized groups in Canada that were importing cocaine, heroin, and fentanyl as well as precursor chemicals used to locally produce synthetic drugs, such as and methamphetamine. Mexican drug cartels were also cited as a customer.³⁵⁶ In his 2018 *Dirty Money* report, German states that 30 percent of those making cash deliveries “were known members of organized crime groups involved in the illicit drug economy and operating primarily in the Lower Mainland.” In addition, some of these couriers delivered cash on behalf of criminal organizations operating outside B.C. while several couriers “did not have criminal backgrounds and were found to be repaying their gambling debt by fulfilling chores for crime groups.”³⁵⁷

Jin and Silver International also stand accused of coordinating the international movement of money (and value) to help pay for illegal drug purchases on the foreign market. Specifically, it is alleged that money owed to Silver International from clients and *fei-chien* brokers in China to settle their accounts

³⁵³ Cassara, 2017, 77

³⁵⁴ Langdale, 2017; German, 2018, 35-44; German, 2019, 62-63; Financial Action Task Force, 2018, Shelley, 2020; Naheem 2017a; Global News, April 19, 2018, How Chinese gangs are laundering drug money through Vancouver real estate

³⁵⁵ German, 2018, 37-38

³⁵⁶ Financial Action Task Force, 2018

³⁵⁷ German, 2018, 136-137

were reimbursed through offshore accounts, which were then used to finance illicit drug and precursor chemical purchases.³⁵⁸ According to the FATF, the global money and value transfer capacities of Jin and Silver International “became increasingly sophisticated to the point where it could wire funds to Mexico and Peru, allowing drug dealers to buy narcotics without carrying cash outside Canada to cover up the international money transfers with fake trade invoices from China.” Investigators are alleged to have found evidence of more than 600 bank accounts in China that were controlled or used by Jin and Silver International. “Chinese police have conducted their own investigation, labelling this as a massive underground banking system.”³⁵⁹

Because much of the cash Silver International provided to clients in Canada was alleged to be the proceeds of drug trafficking – and mostly came in the form of \$20 bills – it first needed to be laundered. Most of the illicit money was apparently laundered in Canada via two main routes: casinos and the real estate market.

Money Laundering through Casinos

Money laundering through casinos was allegedly accomplished by providing the drug cash to gamblers, including individuals recruited from within B.C. as well as from the global gambling hub Macau, who were then brought to B.C. on gambling junkets.³⁶⁰

In a 2017 article, the Vancouver Sun cites BCLC documents alleging that at least 36 VIP gamblers, mostly from China, were linked to massive cash drops from Jin’s network.³⁶¹ Global News cites a 2012 BCLC report filed with FINTRAC that reads, “Most of the patrons that Jin has supplied cash for are known VIP players with extensive gaming histories and considerable wealth with mostly Asian-based businesses.”³⁶² One of the alleged VIP gamblers was a man who lived at the River Rock Casino hotel and who was under investigation for laundering \$855 million through Australian casinos. He was also wanted in the U.S. for a \$1.4 million fraud scheme in Nevada and was eventually extradited from Canada to the U.S.³⁶³ Another River Rock Casino VIP who gambled \$490,000 there allegedly had links to high-ranking officials in China and who was also under allegations of corruption and suspicious land deals in Australia. In one week in April 2016, this VIP bought \$140,000 in a mix of \$20 and \$100 bills to gamble with.³⁶⁴

It has been reported that the gamblers recruited from Asia were provided with a contact in B.C. who would schedule a cash delivery, usually in the parking lot of the River Rock Casino in Richmond. The gamblers usually received stacks of \$20 bills, sometimes delivered in bags full of cash.³⁶⁵ In many instances, it was Jin himself who delivered the cash. This led to Jin being banned from the casino in

³⁵⁸ German, 2018, 136-137

³⁵⁹ Financial Action Task Force, 2018, 34

³⁶⁰ Vancouver Sun, September 29, 2017, “Exclusive: How B.C. casinos are used to launder millions in drug cash; Vancouver Sun, September 30, 2017, “Whale gamblers ID’ed by BCLC also placed big bets on B.C. real estate.”

³⁶¹ Vancouver Sun, Sept. 30, 2017, ‘Whale’ gamblers identified by BCLC also placed big bets on B.C. real estate

³⁶² As cited in Global News, Jan. 31, 2019, B.C. casino ‘knowingly accepted’ millions from banned loan shark, audit alleges

³⁶³ CBC News, June 7, 2018, ‘High roller’ suspected of laundering \$855M arrested in B.C., ordered deported

³⁶⁴ Global News, May 30, 2019, EXCLUSIVE: VIP linked to top Chinese officials, real estate, corruption allegations, gambled with \$490k at B.C. casino

³⁶⁵ Vancouver Sun, October 19, 2017, Charges laid in probe of alleged B.C. drug-cash money-laundering

2012, although he allegedly continued to fund VIP gamblers there; from May to October 2014, he reportedly was involved in 28 separate incidents of delivering cash or casino chips, totalling \$3.9 million, to VIP gamblers at the casino.³⁶⁶

The Times-Colonist newspaper quotes an April 2017 memo from the provincial Gaming Policy and Enforcement Branch and written by Len Meilleur, the branch's director of compliance, which warned "that organized crime presence in and around B.C. casinos presents a viable threat to public safety." More specifically, the memo refers to RCMP and BCLC investigations that allege, "illegitimate lenders" associated with criminal groups are lending ill-gotten cash to VIP gamblers, with drop-offs in casino parking lots or just outside casino property at odd times, generally late at night. Police surveillance at the River Rock Casino allegedly captured footage of people dropping off large sums of money to gamblers who enter the casino with shopping bags and oversized handbags full of cash, neatly stacked and held together with rubber bands. The memo estimates that, in July 2015 alone, \$13.5 million in \$20 bills was accepted at the River Rock Casino.³⁶⁷

Muriel Labine, a former dealer supervisor at the River Rock Casino told Global News she noticed that VIP gamblers were almost always accompanied by young Asian men who gave them cash. Many employees in the Richmond casino started to call these young men "Human Teller Machines." As Global News reports,

Labine judged they were loan sharks, she says, because they would bring in their own clients and sit with them at the tables, passing the baccarat players bundles of \$20 bills and casino chips.

This paper money – wrinkled and wrapped in elastic bands – wasn't likely coming from banks, she judged. When the gamblers ran out of money, she says the "human tellers" would make calls on their cellphones, setting off flurries of activity.

Someone – typically an older Asian man who was treated with respect, according to Labine's memory of these scenes – would arrive at the casino with a plastic grocery bag. The "human tellers" would grab bricks of cash from the bag, give their clients new wads of \$20s and gambling would start again.³⁶⁸

The gamblers will then reportedly buy chips at the casino with the cash provided to them, gamble, and then cash out, receiving a cheque upon leaving the casino.³⁶⁹ The Vancouver Sun cites a confidential audit from June 2016 of "provincially banned cash facilitators" which concludes that gamblers playing high-limit tables at River Rock Casino used the ML method process known as "refining" whereby they would "buy chips with wads of street-cash \$20 bills and cash out with neat bundles of \$100 bills suitable for banking..."³⁷⁰

³⁶⁶ Global News, January 31, 2019, B.C. casino 'knowingly accepted' millions from banned loan shark, audit alleges; Globe and Mail, March 22, 2019, B.C. civil forfeiture office suing target of massive money-laundering investigation

³⁶⁷ Times Colonist, Oct. 7, 2017, Organized crime a 'threat to public safety' in B.C. casinos: gov't report

³⁶⁸ Global News, May 1, 2019, Former B.C. casino supervisor blows whistle on when Macau-style money laundering may have exploded

³⁶⁹ Langdale, 2017,

³⁷⁰ Vancouver Sun, October 16, 2017, B.C. casinos knowingly accepted 'banned' cash: Confidential report

There was also speculation that bank drafts, purchased with the proceeds of crime and supplied to VIP Chinese gamblers by Jin and associates, were also being deposited into BCLC casino patron's accounts. The money would then be withdrawn and a BCLC casino cheque issued, with no indication that any gambling occurred with the funds.³⁷¹ When the gamblers cashed in their chips and/or withdrew funds from their patron accounts, they are left with money available for use in Canada. They would then repay these funds "through cash holdings in China."³⁷²

Suspicious also emerged that the ML was facilitated by internal conspiracies at the casinos. Police surveillance captured phone calls made from inside a Burnaby casino to Paul King Jin's cell phone, according to Postmedia News.

At an August 2015 "Jin file" meeting, members of RCMP's federal serious and organized crime unit reviewed information about several calls that were made to Jin from inside Grand Villa casino in June 2015, documents show. A Postmedia source with knowledge of the Jin file said investigators established the calls were made from a cellphone registered to the casino. The information raised concerns for investigators that a casino staffer might be involved in facilitating cash deliveries from Jin's network, the source said.³⁷³

Global News also reported on a GPEB investigation that alleged the corruption at the River Rock casino was widespread. The investigation was prompted because of allegations of AML compliance breaches at the casino, which suggested the possibility of internal conspiracies at the casino. A manager responsible for business in River Rock's private VIP betting rooms was accused of being "complicit" in a \$200,000 suspected ML transaction completed for a Chinese VIP gambler, even though the gambler had already been banned from B.C. Lottery casinos for suspicious actions. A BCLC investigator also alleged that after River Rock management was asked to forward to a casino investigator important compliance documents regarding the \$200,000 transaction, a crucial form may have been "filled in after the fact and falsified."³⁷⁴

In sum, it is alleged that cash from drug trafficking was being provided to gamblers who laundered the money at B.C. casinos. The proceeds of crime were said to be laundered at B.C. casinos in three basic ways: (i) chips were purchased and then cashed in for a BCLC casino-issued cheque, (ii) small denominations of cash were converted to larger denominations, and (iii) bank drafts were deposited into patron accounts and the funds withdrawn in the form of a cheque.³⁷⁵ The laundered funds were then allegedly transferred to foreign bank accounts, which in turn were reportedly used to finance illegal drug purchases on the foreign market. German provides a visual

³⁷¹ Vancouver Sun, March 13, 2018, Massive BCLC casino cheque payouts were mostly returned funds
Global News, January 28, 2019, Nearly \$2 billion in dirty money may have flowed through B.C casinos, far more than official estimates

³⁷² Vancouver Sun, September 29, 2017, Exclusive: How B.C. casinos are used to launder millions in drug cash

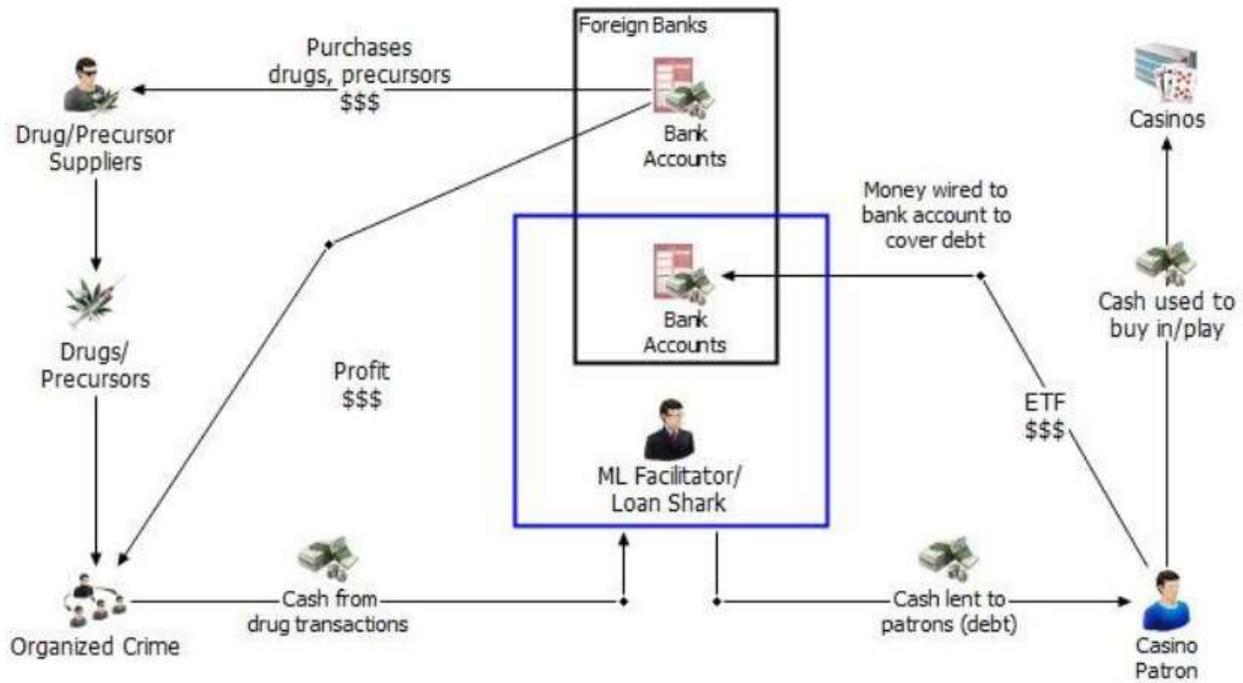
³⁷³ Vancouver Sun, February 24, 2018, Police probed calls made from Burnaby casino to E-pirate suspect Paul King Jin

³⁷⁴ Global News, September 28, 2018, Exclusive: Documents allege complicity in money laundering in major investigation of river rock casino

³⁷⁵ As mentioned, an audit commissioned by BCLC led it to conclude that there was no systemic pattern of money laundering activity at least as it was related to cheques of \$10,000 or more being issued by River Rock Casino between 2014 to 2016. Ernst and Young LLP Canada. (2019). *River Rock Casino Report: Verified Win, Return of Funds and Convenience Cheque Analysis*. Vancouver: E&Y LLP Canada.

depiction of the cash flows from their original criminal sources to the “ML facilitator its loan sharks” to the gamblers who laundered the funds at Lower Mainland casinos, and finally the reimbursement of the funds via wire transfers and offshore bank accounts (used for drug purchases).

Figure 6: ML at British Columbia’s Lower Mainland Casinos (as per the Vancouver Model)



Source: German, P. (2018). *Dirty money, Part I. An independent review of money laundering in Lower Mainland casinos conducted for the Attorney General of British Columbia*. Vancouver: Peter German and Associates, 139

Money Laundering through Real Estate

Drug cash was also allegedly lent out as private mortgages by Jin and associates for the purchase of real property. Through such loans, Jin and his wife alone were accused of having a stake in claims against 28 Vancouver-area properties, for loans and mortgages totalling \$16.6-million.³⁷⁶

A Vancouver Sun article accuses Paul King Jin of providing cash loans to real estate professionals. In one instance, he allegedly delivered a \$2.68-million cash loan to a Chinese real estate developer in Richmond. In B.C. Supreme Court filings, Jin says that on Dec. 24, 2015, he met with Xiao Bing Liu at a coffee shop in Richmond to deliver “a significant amount of money.” Liu, however, claims that he only

³⁷⁶ Globe and Mail, March 22, 2019, B.C. civil forfeiture office suing target of massive money-laundering investigation

signed a document in exchange for gambling chips at an illegal casino in Richmond and that he did not owe Jin any money.³⁷⁷

The fact that Liu admitted to illegal gambling provides some evidence that the real estate professionals who received money from Jin may also have been laundering the cash proceeds of crime at casinos. According to the Vancouver Sun, Paul King Jin is connected to “high-risk” VIP gamblers from China through big B.C. real estate loans. Specifically, cash loans would be made to the gamblers, who would then use the cash to buy poker chips at the casinos. The poker chips would then be cashed for a cheque which would be used to help finance real estate, including down payments and subsequent mortgage payments. Citing BCLC documents, the Vancouver Sun reported in 2014, “... one high-roller was able to take \$645,000 in small bills dropped off to him, and buy gambling chips at River Rock Casino.” While probing the gambler’s recent use of large volumes of cash and casino chips at River Rock Casino, the provincial GPEB found the man owned a \$14-million house near the Point Grey Country Club in Vancouver.³⁷⁸

The Vancouver Sun reports on the results of an internal review conducted in 2016 for the GPEB, which claims that among the hundreds of VIP gamblers at Richmond's River Rock Casino in 2015, the highest proportion of players involved in large and suspicious cash transactions worked in real estate.

Auditors found real estate to be the most common profession of the big spenders in the gambling study. There were 135 VIP patrons in the real estate industry, who accounted for \$53.1 million in total cash buy-ins at River Rock in 2015. Of the real estate professionals that spent over \$1 million in cash, 41 per cent of their transactions were flagged as “unusual.” Most transactions were red-flagged because of large cash buy-ins, or chip purchases with a large number of small bills. Other reasons for flagged transactions included passing of chips or currency between gamblers, and associations with other suspicious gamblers.³⁷⁹

Settling of Accounts

The final step in the process is the settling of accounts between the *fei-chien* broker in Canada (Jin and Silver International) and the debtor (either the wealthy Chinese national transferring funds to Canada, the recipient of a private mortgage, or the recipient of a gambling loan).

The account may be settled by repaying Jin and Silver International the funds that would be sent to Chinese underground bank accounts via electronic fund transfers, smuggled cash, an IVTS or a trade-based (under-invoicing) approach. There is also evidence that accounts were settled through the smartphone app WeChat Pay.³⁸⁰

³⁷⁷ Vancouver Sun, Jan. 12, 2018, Chinese developer took \$2.68-million cash loan in Richmond coffee shop, legal filings allege

³⁷⁸ Vancouver Sun, September 30, 2017, Whale gamblers ID’ed by BCLC also placed big bets on B.C. real estate

³⁷⁹ Vancouver Sun, October 11, 2017, Highest proportion of high-rollers at River Rock Casino are real estate professionals: internal audit

³⁸⁰ Globe and Mail, May 10, 2019, What makes British Columbia - and Canada - a haven for money launderers; Vancouver Sun, Oct. 4, 2017, RCMP casino money laundering probe uncovered alleged 'terrorist financing' links

These offshore accounts have been accused of being used to finance the purchase of illegal drugs or precursor chemicals (for the production of synthetic drugs in Canada) which are then smuggled into Canada. “Financial intelligence suggests that traffickers procure fentanyl, and its analogues and precursors, from overseas sources, mainly in China,” according to the FATF. “Traffickers most often pay for these materials with wire transfers and money orders processed by money-services businesses.”³⁸¹

The E-Pirate Investigation: A Brief Chronology

On June 13, 2017, the Combined Forces Special Enforcement Unit of BC (CFSEU-BC) announced that nine people had been arrested following “an extensive year-long investigation into money laundering, with ties to organized crime.”³⁸²

Code-named E-Pirate, the investigation, which was led by the CFSEU-BC Joint Illegal Gaming Investigation Team (JIGIT), began in May 2016 after intelligence information suggested that members of a criminal organization involved in illegal gambling were also facilitating money laundering, assistant commissioner Kevin Hackett of the CFSEU told the media. The alleged ML services included the collection of large amounts of drug cash that was laundered through casinos and real estate. The impetus for the investigation was a February 2015 meeting between BCLC staff and the RCMP’s federal serious and organized crime unit to “lodge a complaint (about) cash drop-offs at casinos involving a male by the name of Paul ‘King’ Jin who was believed to be associated to organized crime.”³⁸³

In 2015, a confidential report commissioned by the GPEB discussed the allegations of “unsourced cash” flowing into Richmond’s River Rock Casino. The report documents an audit conducted by MNP LLP which was launched after the GPEB had identified approximately \$13.5 million in \$20 bills being accepted in River Rock in July 2015. According to the Vancouver Sun, “Law enforcement intelligence has indicated this currency may be the direct proceeds of crime.”³⁸⁴

Jin first appeared on the radar of the BCLC enforcement and compliance staff in 2012; he was labelled an “extreme risk” and on November 5, 2012, the BCLC banned him from all its casinos for five years. The basis for this ban was allegations of loan sharking and suspicious cash transactions at the River Rock Casino. Jin would emerge as the main suspect in the E-Pirate investigation and was among those arrested on charges of possession of the proceeds of crime, keeping a gaming house and betting, and bookmaking.³⁸⁵

In August 2015, a civil forfeiture action against Silver International Investment and two men, Andy Kai Wai Cheung and Yong Li Chen, was launched by the provincial Civil Forfeiture Office. The lawsuit

³⁸¹ Globe and Mail, February 16, 2018, B.C. vows crackdown after Globe investigation reveals money-laundering scheme

³⁸² Combined Forces Special Enforcement Unit of B.C News Release, Jun 13, 2017, Multiple arrests stemming from a nearly year-long CFSEU-BC JIGIT investigation into organized crime

³⁸³ Vancouver Sun, October 4, 2017, RCMP casino money laundering probe uncovered alleged 'terrorist financing' links; CBC News, Jun 13, 2017, Crime group allegedly laundered millions through B.C. casinos; Indo-Canadian Voice, June 13, 2017, Nine arrested so far in investigation into organized crime with a mainland China connection

³⁸⁴ Vancouver Sun, September 21, 2017, Big cash flowing into river rock casino sparks money laundering probe

³⁸⁵ Vancouver Sun, October 4, 2017, RCMP casino money laundering probe uncovered alleged 'terrorist financing' links

states the men were witnessed by RCMP surveillance among several the people entering Silver International's office with suitcases.³⁸⁶

On October 15, 2015, 10 police raids were conducted in Richmond as part of the E-Pirate investigation. One of the offices searched was that of Silver International, which the Vancouver Sun described as "a high-end money transfer business, surrounded by bulletproof glass."³⁸⁷

Criminal charges were filed against Silver International Investment and its two principal directors, Caixuan Qin and Jian Jun Zhu in October 2017 as part of the ongoing E-Pirate probe. In laying the charges, the RCMP alleged they found more than \$500 million laundered by the company and said they were handling up to \$1.5 million in drug cash a day.³⁸⁸

A little more than a year later, in November 2018, all criminal charges laid as part of E-Pirate were stayed. Neither Crown prosecutors nor the RCMP would disclose the reasons why they abandoned the case. At the time, the RCMP did release a statement saying it is "conducting a full-scale review to understand its activities, which contributed to this stay ... More importantly, how to mitigate against the possibility this set of circumstances occurs again in the future."³⁸⁹

Despite this setback, beginning in December of 2018 the B.C. Civil Forfeiture office filed a notice of claim in B.C. Supreme Court seeking to confiscate cash and assets from Silver International as well as Caixuan Qin and Jain Jun Zhu. Then in January, the BCCFO launched a similar action against Paul King Jin seeking \$4.86 million, a \$764,000 Richmond condo, as well as a 2011 Porsche 911 and \$45,000 worth of chips from two local casinos that were seized in October 2015 from Jin's apartment and the Richmond spa he owned. The civil suit also names Jin's wife, his niece, as well as his mother and father. Ming Kang Ye was also named in the suit as she was the registered owner of the Porsche to obscure Mr. Jin as the "true owner."³⁹⁰

In January 2020, the BCCFO launched another civil suit against Jin's mother, this time for \$40,000 found in a Richmond condo, claiming it to be the proceeds of crime. The cash was found by police bundled and stuffed in a clothes dryer following the execution of a search warrant executed at the home of Hua Wang on May 23, 2017.³⁹¹

In February of 2020, the Bank of Nova Scotia demanded payment of a \$1.2-million mortgage on a West Vancouver home that was registered in the name of Yuanyuan Jia. However, a B.C. Civil Forfeiture claim filed in B.C. Supreme Court in March 2019 alleges the home is owned by her uncle Paul King Jin and that it is the proceeds of crime and has been used to launder money.³⁹² That same month, the BCCFO filed

³⁸⁶ Vancouver Sun, September 29, 2017, Exclusive: How B.C. casinos are used to launder millions in drug cash

³⁸⁷ Vancouver Sun, September 29, 2017, Exclusive: How B.C. casinos are used to launder millions in drug cash

³⁸⁸ Vancouver Sun, October 19, 2017, Charges laid in probe of alleged B.C. drug-cash money-laundering

³⁸⁹ Globe and Mail, Nov. 29, 2018, Charges stayed in major B.C. money-laundering case; Vancouver Sun, Nov. 29, 2018, Attorney General 'incredibly disappointed' by charges stayed in B.C.'s largest money-laundering case

³⁹⁰ Globe and Mail, March 22, 2019, B.C. civil forfeiture office suing target of massive money-laundering investigation

³⁹¹ Times Colonist, January 27, 2020, Province wants cash that was found in money-laundering probe

³⁹² Vancouver Sun, February 3, 2020, \$1.2M mortgage called on B.C. home allegedly tied to money laundering

another lawsuit against Jin seeking the forfeiture of a \$25,000 bank draft found in his Mercedes, which was dated May 20, 2017, and made out to Great Canadian Casinos.³⁹³

8. Effects of Money Laundering

8.1. A Critical Analysis of the Dominant Narratives on the Effects of Money Laundering

For years, red flags have been raised over the supposedly pernicious effects ML has on the economy, the private sector, public institutions, and society as a whole. Yet, as Ferwerda notes in his review of the literature examining the effects of ML, hardly any of the effects posited “are backed up by empirical evidence.”

Most of them are theorized and some even seem to have no traceable source at all ... To my knowledge, this suggested evidence simply does not exist. Empirical research on the effects of money laundering is mainly hampered by the lack of a reliable estimate of the amount of money laundering in every country in every year.”³⁹⁴

Schneider agrees, arguing in a 2003 article, “Despite its reach into the country’s numerous economic sectors, there is little evidence that money laundering, in and of itself, has any substantial negative repercussions for the Canadian economy. In fact, the most significant costs incurred by the private sector may actually stem from the mandatory cash and suspicious transaction reporting laws. It could even be argued that money laundering has some benefits for society in that funds are expended in the legal economy, where it can contribute to producing legitimate and taxable wealth.”³⁹⁵

Indeed, studies conducted by Grosse (1990) and Mackrell (1996) are worth noting for their efforts to acknowledge the potential benefits that ML may bring to society. Both argue that in-and-of-itself money laundering has either no real impact on or at least makes a modest positive contribution to the economy. Mackrell contends there are few significant economic consequences of ML over and above its support of organized crime. Grosse intimates that the infusion of drug money into society may have some positive economic benefits (although he also acknowledges that the costs of substance abuse greatly outweigh any benefits of investing drug money into the legitimate economy).³⁹⁶

Fears about the effects of ML appear to be most endemic when applied to the macro-economic (nation-state) level. Rampant ML is said to limit economic growth, affect interest and currency exchange rates and lead to increased volatility of international capital flows.³⁹⁷ Few, if any studies, however, have

³⁹³ Vancouver Sun, February 9, 2020, Province files another lawsuit against assets of alleged money-launderer

³⁹⁴ Ferwerda, J. (2013). The effects of money laundering, Ch. 3 (pp. 35-43) in Unger, B., & Linde, D. v. (Eds.). (2013). *Research handbook on money laundering*. Cheltenham: Edward Elger, 38

³⁹⁵ Schneider, 2003, 137

³⁹⁶ Grosse, R. (1990). Economic impact of the Andean cocaine traffic on Florida. *Journal of Interamerican Studies and World Affairs*. 32(14). Winter: 137-159 ; Mackrell, N. (1996). Economic consequences of money laundering. in Graycar, A and Grabosky, P. (Eds.) *Money Laundering in the 21st Century: Risks and Countermeasures*. Seminar Held in Canberra, Australia, February 7, 1996: 29-35

³⁹⁷ Ferwerda, 2013; McDowell, J. and Novis, G. (2001). The consequences of money laundering and financial crime. *The Fight against Money Laundering: Economic Perspectives: An Electronic Journal of the U.S. Department of State*, 6 (2), 6-8

supplied strong evidence that the volume of proceeds of crime being laundered is large enough to influence the economy of Western countries. Because of a paucity of rigorous empirical data on the effects of ML, the literature on the subject tends to be replete with hypotheses, conjectures, anecdotal evidence, and alarmist rhetoric.

Woodiwiss argues that the inflated statistics on the magnitude and impact of ML have unnecessarily led to empire building by law enforcement agencies through requests for increased power and funding to combat ML.³⁹⁸ Naylor believes the urgent discourse over ML is constructed to provide a rationale for inflating hiring within law enforcement agencies, to increase arbitrary policing powers, to balance government budgets through the use of forfeited criminal proceeds and to compel other countries to adopt American-style punitive AML policies.³⁹⁹ Those countries that resist complying with American-inspired FATF AML measures face international blacklisting (with member nations notifying other member nations' that to accept financial transactions from non-cooperating countries runs the risk of facilitating the transfer of illicit funds).⁴⁰⁰

These critiques of existing estimates of the impact of ML does not mean it does not have a negative (or positive) effect; it is just that much of the literature lacks any rigorous empirical data to back up such arguments and tends to recycle overused rationales that are unaccompanied by any critical analysis.

8.2. Dominant Narratives on the Effects of Money Laundering

In its 2004 annual report on organized crime in Canada, CISC claims that “laundering and reinvestment of criminal proceeds in legitimate companies can undermine the legitimate economy, giving illegitimate businesses unfair advantages ... When organized criminals manipulate financial systems and institutions and corrupt key public and private sector officials to facilitate ML, the integrity of the financial institutions could be compromised resulting in the loss of investor and public confidence.”⁴⁰¹

Similarly, McDowell and Novis argue that “money laundering has potentially devastating economic, security, and social consequences.” When left unchecked “money laundering can erode the integrity of a nation’s financial institutions. Due to the high integration of capital markets, money laundering can also adversely affect currencies and interest rates. Ultimately, laundered money flows into global financial systems, where it can undermine national economies and currencies. Money laundering is thus not only a law enforcement problem; it poses a serious national and international security threat as well.” Below are some of the specific negative effects the authors contend result from ML.

Undermining the Legitimate Private Sector – One of the most serious microeconomic effects of money laundering is felt in the private sector. Money launderers often use front companies, which co-mingle the proceeds of illicit activity with legitimate funds, to hide the ill-gotten gains ... In some cases, front companies can offer products at prices below what it costs the manufacturer to produce. Thus, front companies have a competitive advantage

³⁹⁸ Woodiwiss, M. (2001). *Organized Crime and American Power*. Toronto: University of Toronto Press, pp. 245-255, 270-271

³⁹⁹ Naylor, R.T. (2002). *Wages of Crime*. Montreal: McGill-Queen's University Press, p. 133

⁴⁰⁰ Ronderos, J.G. (2002). *The War on Drugs and the Military: The Case of Columbia*, pp. 207-236 in M.E. Beare (ed.) *Critical Reflections on Transnational Organized Crime, Money Laundering and Corruption*, Toronto: University of Toronto Press

⁴⁰¹ Criminal Intelligence Service Canada, 2004, 39

over legitimate firms that draw capital funds from financial markets. This makes it difficult, if not impossible, for legitimate businesses to compete against front companies with subsidized funding, a situation that can result in the crowding out of private sector business by criminal organizations.

Undermining the Integrity of Financial Markets – Financial institutions that rely on the proceeds of crime have additional challenges in adequately managing their assets, liabilities, and operations. For example, large sums of laundered money may arrive at a financial institution but then disappear suddenly, without notice, through wire transfers in response to non-market factors, such as law enforcement operations. This can result in liquidity problems and runs on banks.

Adverse Effects on Currencies and Interest Rates – As launderers reinvest funds where their schemes are less likely to be detected, rather than where rates of return are higher ... This can increase the threat of monetary instability due to the misallocation of resources from artificial distortions in asset and commodity prices. In short, money laundering and financial crime may result in inexplicable changes in money demand and increased volatility of international capital flows, interest, and exchange rates.

Economic Distortion and Instability – Money launderers are not interested in profit generation from their investments but rather in protecting their proceeds. Thus they “invest” their funds in activities that are not necessarily economically beneficial to the country where the funds are located. Furthermore, to the extent that money laundering and financial crime redirect funds from sound investments to low-quality investments that hide their proceeds, economic growth can suffer.

Loss of Revenue – Money laundering diminishes government tax revenue and therefore indirectly harms honest taxpayers. It also makes government tax collection more difficult. This loss of revenue generally means higher tax rates than would normally be the case if the untaxed proceeds of crime were legitimate.

Reputation Risk – Nations cannot afford to have their reputations and financial institutions tarnished by an association with money laundering, especially in today’s global economy. Confidence in markets is eroded by money laundering and financial crimes. The negative reputation that results from these activities diminishes legitimate global opportunities and sustainable growth while attracting international criminal organizations with undesirable reputations and short-term goals. This can result in diminished development and economic growth.⁴⁰²

Ferwerda’s 2013 review of the literature focusing on the effects of ML, “yields one direct and 24 indirect effects that ML can have on the real and the financial sector.” As summarized in the following table, Ferwerda summarizes the consensus of the literature writing that ML “can affect the real economy by distorting consumption savings, investment, inflation, competition, trade, and employment.” Furthermore, money laundering can affect the financial sector with an increased risk on the solvency,

⁴⁰² McDowell and Novis, 2001, 6-8

liquidity, reputation and integrity of the sector and individual firms. “Money laundering, on the other hand, could also be good for our economy, for example, because it increases the profits for the financial sector and leads to a greater availability of credit.”⁴⁰³

Table 5: Effects of Money Laundering (based on an analysis of the extant literature)

Effect	Type of Effect			Effect in which Sector			Short Term	Long term
	Economic	Social	Political	Real	Financial	Public & Monetary		
Law enforcement gets a second chance		X		X			X	
Distortion of consumption	X			X			X	
Distortion of investment and savings	X			X				X
Artificial increased in prices	X			X			X	
Unfair competition	X			X			X	
Changes in imports and exports	X			X			X	
More (or less) economic growth	X			X				X
Change in output and income employment	X			X			X	
Higher/lower revenues for the public sector	X			X		X	X	
Threatens privatization	X			X		X		X
Changes in the demand for money, interest and exchange rates	X					X	X	
Greater availability of credit	X		X			X	X	
Higher capital inflows/outflows	X				X	X	X	
Changes in foreign direct investment	X			X		X		
Risk for financial sector solvency and liquidity	X	X			X			X
Profits for the financial sector	X			X	X			X
Reputation of the financial sector		X		X	X			X
Illegal business contaminates legal business	X		X	X	X			X
Distortion of economic statistics			X			X	X	
Corruption and bribery		X		X	X			X
Increase in crime		X	X	X		X		X
Undermines political institutions			X			X		X
Undermines foreign policy goals			X			X		X
Increase in terrorism		X	X			X		X

Source: Ferwerda, J. (2013). The effects of money laundering, Ch. 3 in in Unger, B., & van der Linde, D. (Eds.). (2013). *Research handbook on money laundering*. Cheltenham: Edward: pp. 36-37.

⁴⁰³ Ferwerda, 2013, 35

8.3. Effect of Money Laundering on (Organized) Crime

The literature also emphasizes the support that money laundering provides for organized crimes, like drug trafficking, and criminal organizations. Citing the literature, Ferwerda writes that one of the purported effects of ML may be “increase in crime” because “money laundering makes criminal activities worthwhile and provides criminal organizations with capital they can use to further expand their criminal activities.”⁴⁰⁴ McDowell and Novis argue that ML “provides the fuel for drug dealers, terrorists, illegal arms dealers, corrupt public officials, and others to operate and expand their criminal enterprises.”⁴⁰⁵

Money laundering is a process vital to making crime worthwhile. It allows drug traffickers, smugglers, and other criminals to expand their operations. This drives up the cost of government due to the need for increased law enforcement and health care expenditures (for example, for treatment of drug addicts) to combat the serious consequences that result. Among its other negative socioeconomic effects, money laundering transfers economic power from the market, government, and citizens to criminals. In short, it turns the old adage that crime doesn’t pay on its head. Furthermore, the sheer magnitude of the economic power that accrues to criminals from money laundering has a corrupting effect on all elements of society. In extreme cases, it can lead to the virtual take-over of legitimate government.⁴⁰⁶

Even the seemingly intuitive notion that ML contributes to drug trafficking and other profit-oriented organized crimes should be subject to scrutiny. Drug trafficking and other consensual crimes are driven largely by demand – this is the most crucial factor when examining the cause of consensual organized crimes. ML has little influence on the demand for drugs, gambling, sex, illegal travel or other consensual crimes. And because ML does not affect demand, it does not have an appreciable impact on supply. True, the proceeds of crime can be reinvested in the supply chain to fuel ongoing criminal conspiracies, such as the purchase of drugs, but such funds do not necessarily need to be cleaned because they will be used in the illegal economy anyway.

Perhaps the most significant impact that the absence of ML would have on criminal entrepreneurs is that they would have a more difficult time enjoying the fruits of their crimes. But given that many drug dealers and gang members spend their cash on more impulsive hedonistic endeavours (as opposed to elaborate measures to convert or hide their illicit), a lack of ML may not be that big of a problem for most drug dealers.

Despite these critiques of the literature on the contribution of ML to drug trafficking, one critical aspect of the Vancouver Model were the allegations that the cash proceeds of crime loaned by Jin and Silver International to clients in Canada was reimbursed through offshore accounts, which were reportedly used as a source to finance illicit drug and precursor chemical purchases. Moreover, the informal value transfer systems used to transport and launder drug money internationally were purportedly also used to expedite the purchase of drugs.⁴⁰⁷

⁴⁰⁴ Ferwerda, 2013, 41

⁴⁰⁵ McDowell and Novis, 2001, 6

⁴⁰⁶ McDowell and Novis, 2001, 8

⁴⁰⁷ German, 2018, 136-137; Financial Action Task Force, 2018, 34

As far as the impact on local economies is concerned, the Vancouver Model may also substantiate the argument that ML has some influence at a local level; in particular, a large amount of criminal cash laundered in a concentrated manner (through a specific economic sector within a city or region) may prove to have an effect on that sector.

Given the above, if the literature on the Vancouver Model is accurate, it may serve as a case study to further explore: (i) the extent to which ML contributes directly to the continuance of drug trafficking through its ability to repatriate funds to purchase drugs on the international market and (ii) the extent to which ML can truly distort a particular local industry – in this case, the real estate market in Greater Vancouver – if the proceeds of crime are voluminous enough relative to the size of the market.

8.4. Money Laundering and its Effects on British Columbia

Echoing much of the extant literature on the impact of ML, within B.C. the news media, government officials, studies, and consulting reports have put forth the argument that ML has negatively affected the province and the real estate market in the Lower Mainland specifically.

The Expert Panel on Money Laundering in B.C. Real Estate concluded:

Money laundering significantly damages our society and causes ongoing harm, not limited to the real estate sector or other economic sectors. Money laundering is a contagious, corrupting influence on society, damaging the reputations and stability of professions and institutions needed to enable complex money laundering schemes and spreading that damage throughout civil society. It facilitates other criminal activities, contributing in particular to drug trafficking and the violent crime and opioid deaths that result, as is sadly so evident in BC. It deprives the public and public services of the benefit of taxation revenue. It affects real estate markets and contributes to the housing affordability problem.⁴⁰⁸

A common narrative stemming from the Vancouver Model is that ML fosters drug trafficking. As Cockfield states in a Globe and Mail article, “Chinese money laundering is tied to Canada’s number one public health crisis, namely the nearly 4,000 fentanyl overdose deaths per year.” According to Canadian law enforcement, most of this fentanyl – including the deadly tainted version of the drug – is manufactured by and shipped from China-based factories through online sales to Canadian drug users and traffickers.⁴⁰⁹

According to the literature, the ML allegedly undertaken by Jin and Silver International not only attempted to clean drug money through casinos and real estate. It also contributed to financing the purchase of drugs. There is evidence that the money loaned by Silver International to clients was reimbursed through offshore accounts, which were reportedly used as a source to finance illicit drug and precursor chemical purchases. Moreover, the international informal value transfer systems used to transport and launder drug money internationally were also used to expedite the purchase of drugs.

⁴⁰⁸ Expert Panel on Money Laundering in BC Real Estate, 2019, 1

⁴⁰⁹ Globe and Mail, February 8, 2019, Opinion: The high price of Chinese money laundering in Canada

As far as the effects of ML on the B.C. economy is concerned, much of the literature is focused on the real estate market in the Lower Mainland. According to the Expert Panel on Money Laundering in B.C. Real Estate:

The primary negative effect of money laundering on real estate markets in general, and on housing affordability in particular, results from the wedge it creates between local incomes and local real estate prices.

Dirty money invested in real estate is a source of market demand that is not linked to local incomes, and the investments are made for reasons other than the pursuit of normal expected rates of return. It causes prices for all real estate asset classes to rise above the levels that are supported by local household incomes for the rental and ownership of residential real estate. The same effect is observed for commercial tenants and properties, where money laundering demand is not linked to revenues from legitimate business activities.⁴¹⁰

Based on this assumption, the expert panel concluded that “money laundering investment in BC real estate is sufficient to have raised housing prices and contributed to BC’s housing affordability issue.”

The Panel cautiously estimates that almost 5 percent of the value of real estate transactions in the province results from money laundering investment. The estimated impact of that would be to increase housing prices by about 5 percent. Successfully reducing money laundering investment in BC real estate should have a modest but observable impact on housing affordability.⁴¹¹

While this estimate does indeed suggest that ML did influence housing prices, the expert panel did provide some caution on this conclusion. “The data limitations that make it difficult to estimate the level of money laundering make it even more challenging to estimate the allocation of money laundering to specific economic sectors, such as real estate and the impact of that investment on house prices.”⁴¹²

In sum, the literature on the Vancouver Model suggests there is evidence that ML did have at least two negative effects: (i) it directly contributed to the purchase of illegal drugs for trafficking and (ii) it increased housing prices in the Lower Mainland.

⁴¹⁰ Expert Panel on Money Laundering in BC Real Estate, 2019, 53

⁴¹¹ Expert Panel on Money Laundering in BC Real Estate, 2019, 2

⁴¹² Expert Panel on Money Laundering in BC Real Estate, 2019, 2

9. Discussion and Analysis: Factors that put Canada and B.C. at Risk of Money Laundering

9.1. Canada

The literature includes studies and reports that put forth indicators of a country's or region's vulnerability to ML. Most of the indexes and resulting methodologies are concerned with whether a particular country has in place sufficient AML (criminal) laws and regulations.

The FATF conducted a comprehensive evaluation of Canada's AML and counter-terrorist financing measures in 2016. It provided a generally positive assessment, although a key finding was that "law enforcement results are not commensurate with the [money laundering] risk and asset recovery is low."⁴¹³

Anti-money laundering laws, enforcement, and regulations are not the only factors that should be considered when determining a country's vulnerability to ML. The U.S. Bureau of International Narcotics and Law Enforcement Affairs, which is part of the State Department, publishes an annual report that assesses ML risk exposure for countries around the world. Their assessment metric is largely based on the extent to which "key AML laws and regulations" are in place, any deficiencies in such laws and regulations, as well as the broad category of "enforcement/implementation issues" (the metric is biased towards measures that the U.S. deems necessary for an effective AML regime). The annual national assessments also take into consideration the level and sophistication of predicate organized crimes (and criminal organizations) in that country, the volume of proceeds of crime produced in that country, and how exposed a country's financial and commercial sectors are to ML (which is tied to the extent to which a country complies with AML laws and regulations).⁴¹⁴

In its most recent annual report for 2020, the Bureau designated Canada as a "major money laundering country." The term "major money laundering country" describes a country "whose financial institutions engage in currency transactions involving significant amounts of proceeds from international narcotics trafficking."⁴¹⁵

This designation has plagued Canada in the Bureau's ML risk assessments since it began in the early 1990s. In its 1993 report, Canada was designated a "primary concern" for global ML activities because it has a "drug money laundering problem" that may be increasing. Canada is also considered "a significant money laundering threat because it is a transit point for drugs and money destined for the U.S. from South America, the Middle East and Asia traffic which compounds the money laundering problem created by domestic use." The report goes on to say that South American cocaine cartels have laundered drug proceeds from U.S. sales in Canadian financial institutions, as has a prominent Middle Eastern heroin trafficking organization.⁴¹⁶

The Basel AML Index holds itself out as "the only independent, research-based index issued by a not-for-profit organisation ranking countries according to their risk of ML/TF. It provides risk scores based on the quality of a country's AML/CFT framework and related factors such as perceived levels of corruption,

⁴¹³ Financial Action Task Force. (2016) *Anti-money laundering and counter-terrorist financing measures – Canada* (Fourth Round Mutual Evaluation Report), Paris: FATF

⁴¹⁴ Bureau of International Narcotics and Law Enforcement Affairs, 2020

⁴¹⁵ Bureau of International Narcotics and Law Enforcement Affairs, 2020, 76

⁴¹⁶ Toronto Star, June 17 1993, Foreign drug money cleaned in Canada, U.S. report says

financial sector standards and public transparency.” The index focuses on five national domains to arrive at its scores for individual countries: (i) the quality of AML/CFT framework (ii), bribery and corruption, (iii) financial transparency and standards, (iv) public transparency and accountability and (v) legal and political risks. The scores are aggregated as a composite index using a qualitative and expert-based assessment to form the final country ranking. Among the 125 countries ranked in the 2019 report, Canada’s score was 4.97, which ranked it 79th on the list (between Switzerland and Hungary). The most vulnerable country in the ranking was Mozambique (with a score of 8.22) while the least vulnerable was Estonia (2.68). The U.S. was ranked 72nd with a score of 5.03.⁴¹⁷

Based on a review of the literature, some of the key factors that make a country vulnerable to ML are summarized below and applied to Canada.

Exposure to Drug Trafficking, Organized Crimes, and Transnational Organized Crime

Exposure to domestic and international drug trafficking, organized crimes, and transnational organized crime are all critical factors in a country’s vulnerability to ML. It has long been argued that Canada is quite exposed to organized crimes and transnational organized crime. As Schneider writes in his book chronicling the history of organized crime in Canada,

Canada has not been immune from the globalization of crime and plays a number of roles in the worldwide organized crime theatre. Most notably, it continues to serve as a branch plant for transnational criminal organizations and a transit point for the international movement of illegal goods. According to the U.S. State Department’s 2002 International Narcotics Control Strategy Report, “heroin, cocaine, and MDMA (ecstasy) are trafficked through Canada, as international drug traffickers take advantage of Canada’s proximity to the United States, less stringent criminal penalties as compared to the U.S., and the constant flow of goods across the U.S.-Canada border.”

In addition, there is evidence that Canada has become a centre of operations for some transnational crime groups. Since the return of Hong Kong to China in 1997, ethnic Chinese crime groups have shifted resources, people, and certain criminal activities to Toronto and Vancouver. Canada also has the highest concentration of Hells Angels chapters in the world. The country supplies an embarrassingly rich assortment of illegal and contraband goods, a tradition that began when British Columbia became a major producer of smokable opium in the early part of the century. This tradition continued through Prohibition when Canada was America’s main source of illegal liquor and found new life in the 1970s when the country surfaced as a major producer of synthetic drugs. By the end of the 1990s, Canada had established itself as the continent’s preeminent supplier of high-grade marijuana, methamphetamines, and ecstasy. It has also become an international centre for telemarketing fraud and the counterfeiting of currency, bankcards, and digital entertainment products. All of these developments led the Wall Street Journal to assert in

⁴¹⁷ Basel Institute on Governance. (2019). *Basel AML Index: 8th edition A country ranking and review of money laundering and terrorist financing risks around the world*. Basel, Switzerland, 4-6

1998 that Canada has become “one of the most important bases for the globalization of organized crime.”⁴¹⁸

Economic Factors and the Sophistication of Canada’s Financial System

The sophistication of Canada’s financial system and the range of the services amenable to ML offered through banks and other financial intermediaries is said to make the country at high risk of ML. In its 1998 ML report, the U.S. Bureau of International Narcotics and Law Enforcement Affairs designated Canada as a “primary” concern for international ML due to “its advanced financial sector” combined with its “proximity to the US, which makes it an attractive target to money launderers.”

The Canadian open financial sector and bank branches located in traditional tax haven countries also make the country vulnerable to money laundering. Currency exchange houses, particularly near the US border, are believed to move large amounts of drug money between the United States and Canada. Canada has financial institutions that engage in currency transactions involving international narcotics trafficking proceeds that include significant amounts of US currency.⁴¹⁹

Broader Social, Economic, Political and Geo-Political Factors

According to a Finance Canada report on the inherent risks of ML/TF in Canada:

Internationally, Canada is recognized as a multicultural and multiethnic country with a stable economy and strong democratic institutions. Although these features of Canada are positive, some can be subject to criminal exploitation. Criminals, including money launderers and terrorist financiers, can be attracted to Canada as a result of inherent vulnerabilities associated with Canada’s geography, demographics, stable open economy, accessible financial system, proximity to the United States and well-developed international trading system.⁴²⁰

Criminal Justice Policies (and the Charter of Rights and Freedoms)

Some have argued that Canada’s exposure to ML and predicate criminal offences is due to the country’s international reputation as being soft on crime. There is no doubt the Canadian criminal justice system is far less punitive than that of the U.S.; it places much greater emphasis on reintegrating offenders into society (primarily through probation). This means Canada has less punitive penalties for both drug trafficking and ML.

According to one 1996 news story examining the ML operations of a major Canadian hashish importer, “Canada has a well-earned reputation for letting drug traffickers off lightly when they get nabbed.” Dealers can count on spending four to six years in jail for a serious drug crime in Canada, compared with up to twenty years in the United States. This also means that there is considerably less incentive for an operative who’s arrested in Canada to become a government witness.⁴²¹

⁴¹⁸ Schneider, 2016, 344

⁴¹⁹ Bureau for International Narcotics and Law Enforcement Affairs, U.S. Department of State. *International Narcotics Control Strategy Report, 1997*. Washington, D.C.: Department of State, March. 1998

⁴²⁰ Finance Canada, 2015, 32

⁴²¹ The Globe and Mail, April 20, 1996, A drug lord’s comedown

German cites several criminal justice factors – and the strong adherence of the criminal courts to the *Canadian Charter of Rights and Freedoms* – that may contribute to the country’s vulnerability to ML. This includes “less severe criminal sanctions than in the U.S.; a belief in rehabilitation and parole for crime, including serious offences; a strong Charter of Rights and Freedoms, which has eliminated most reverse onus provisions in criminal law; strong pre-trial disclosure of a criminal case; strict limits on the length of a criminal proceeding; [and] very few police and prosecutorial resources devoted to white collar crime.”⁴²²

Central to these arguments is the concept of deterrence as a means to control crime. Two deterrence strategies specific to organized crime in Canada are the Criminal Code provisions that provide harsher penalties for crimes committed for a criminal organization and asset forfeiture, in which the ill-gotten gains of criminal offenders are forfeited to the Crown. The deterrent effect of these and other criminal justice sanctions on organized criminal offenders has been the subject of intense scrutiny as research and critics contend that the prospect of arrest and imprisonment does not sufficiently serve to deter the most serious and chronic offenders.⁴²³ As Schneider writes, “Many offenders may be so attracted by the profit potential of lucrative organized crimes that they are willing to assume the risk and therefore are not easily deterred by the prospect of arrest and punishment.”⁴²⁴

9.1.1. British Columbia

All of the above factors may contribute to increasing the exposure of British Columbia, and Greater Vancouver specifically, to ML. Given this, some remaining questions to be asked are: To what extent is B.C. unique among other jurisdictions as far as ML is concerned? Is it at higher risk than other provinces in Canada or internationally? If so, what makes it unique?

It has been argued that B.C. also has unique qualities that make it vulnerable to ML, relative to other parts of Canada. As German points out, “the unique characteristics of a particular city or region which make it an attractive place to live, to work and to visit, are often the same characteristics which make it an ideal location for organized crime and money laundering. Greater Vancouver is such a region.” Among Vancouver’s characteristics that make it vulnerable to organized crime and ML, according to German:

- a large international airport serviced by numerous Asian carriers;
- a large port which faces Asia and is primarily concerned with cross-Pacific trade;
- close proximity to the U.S., such that almost all residents live within one hour of the border;
- reciprocal, visa-free access to Mexico;
- most domestic and many international banks;
- a high-tech sector, including leading-edge encryption industries;
- large and well-established ethnic diasporas with strong foreign ties; and
- the early acceptance of cryptocurrency.⁴²⁵

⁴²² German, 2019, 39-40

⁴²³ Nagin, D. (2013). Deterrence in the 21st century. in M. Tonry (Ed.), *Crime and Justice in America: 1975– 2025*. Chicago: University of Chicago Press.

⁴²⁴ Schneider, 2018, 496

⁴²⁵ German, 2019, 39-40

In an April 2015 article, the Province newspaper quotes Kim Marsh, a Vancouver-based financial crime specialist who said the city is “emerging as a critical money laundering hub” for international criminals, due to a convergence of factors including drug money, international connections, an active port, and a hot real estate market.⁴²⁶

Greater Vancouver has long had a vibrant illegal underground that includes the participation of major criminal organizations that generate millions if not billions in illegal revenue annually. Two of the country’s biggest ongoing organized criminal conspiracies – the Hells Angels and Chinese criminal networks – both have a heavy presence in the province and the Lower Mainland specifically. Many factors make the province so hospitable to these major crimes groups, one of which is shared only with Montreal and Halifax: Greater Vancouver’s commercial marine container ports, which represent a major conduit for the importation of drugs and other contraband into the country.⁴²⁷

Montreal, Halifax, and Vancouver were deliberately chosen as sites for the Hells Angels’ pioneering chapters in Canada as they were all port cities and “thus fit neatly into the Hells Angels’ ambitious smuggling ventures.”⁴²⁸ Behind illegal shipments of heroin and fentanyl seized at the Port of Vancouver are sophisticated Chinese criminal networks. Their role in the proliferation of synthetic drug labs in the Lower Mainland has also helped to establish marine ports along the west coast as this country’s gateway for precursor chemicals from China and the outbound smuggling of ecstasy and crystal meth to Pacific Rim countries.⁴²⁹

B.C. has long been a locus for drug trafficking in Canada. From opium smuggling and trafficking during the late 19th and early 20th century to the escalation in illegal morphine and heroin use following the first world war to the spike in cocaine trafficking in the 1980s, the homegrown marijuana boom in the 1990s, all the way to the onset of synthetic drug production in the Lower Mainland in the 2000s. Drug smuggling and trafficking in B.C. is no doubt influenced by its commercial marine port and easy access to and from the U.S. through official and unofficial land border points. But B.C. also has had a disproportionate amount of drug trafficking due to the presence of one of the largest addict populations in the country. The province is also a major source of marijuana and synthetic drugs to other provinces and U.S. states (and is now also an international transit point for international cocaine distribution).⁴³⁰

Two other factors have also made Vancouver particularly attractive for ML, as exposed by the literature on the Vancouver Model: legal casinos that catered to VIP gamblers and a hot real estate market. As Kim Marsh states, in Vancouver, one can’t look at ML without considering property investment and a more active market means more opportunity for funds to be washed.⁴³¹ The vulnerability of Greater Vancouver’s real estate market to ML has been allegedly heightened by its popularity among Chinese nationals as an investment and a place to call home. The lack of compliance with AML rules and

⁴²⁶ The Province, April 29, 2015, Vancouver a 'critical' money laundering hub for transnational criminals

⁴²⁷ Presidia Consulting Inc. (2011). *A Study of the Vulnerability of Marine Ports to Organized Crime. Report submitted to Public Safety and Emergency Preparedness Canada.* (unpublished) May.

⁴²⁸ Schneider, 2016, 398

⁴²⁹ Presidia Consulting Inc., 2011

⁴³⁰ Schneider, 2016, 343-345

⁴³¹ The Province, April 29, 2015, Vancouver a 'critical' money laundering hub for transnational criminals

regulations by real estate firms and professionals have also been cited as a factor that helped foster an environment conducive to ML.⁴³²

Of course, Greater Vancouver's economic and cultural orientation towards China and its large expatriate population of ethnic Chinese have increased the city's exposure to transnational Chinese organized crime, capital flight from China, as well as illicit drugs, including opium (historically), heroin (recently) and fentanyl (more recently), all of which are smuggling through Canada's west coast from Asia.

10. Conclusion

In their quest to legitimize revenue from unlawful activities, criminal entrepreneurs take advantage of a wide range of sectors, services, transactions, and professionals in the legitimate economy. The commercial and financial sectors most vulnerable to money laundering are corporations (due to their ability to hide beneficial ownership), domestic banks, money service businesses (currency exchange companies, cheque cashing businesses, cash transfer businesses), trust accounts. Despite its underworld connotations, the ML process itself is not an economic aberration; for the most part, it thrives on the very same commercial and financial transactions that are conducted by most Canadian citizens and companies. Indeed, a fundamental tenet of money laundering is to ensure that the transactions used to cleanse the criminal proceeds appear as legitimate as possible.

A number of techniques – some rudimentary, some more inventive – are also used to facilitate the money laundering process. Nominees, smurfs, structuring, refining, and claiming criminal proceeds as legitimate revenue are commonly employed to conceal criminal ownership and avoid suspicion associated with large amounts of cash.

In British Columbia in recent years, the sectors of the economy that appear to be vulnerable to money laundering are banks and other deposit institutions, real estate, casinos, and motor vehicles. Beyond the inherent capacity of casinos to launder the proceeds of crime, ML was pervasive at Lower Mainland casinos for at least three reasons, based on a reading of the literature: (i) the alleged massive criminal ML conspiracy that became known as the Vancouver Model, (ii) the gestures of casinos and the BCLC to cater to high-rolling VIP Chinese gamblers, and (iii) the provincial Liberal Government's policies that intervened to have the BCLC raise high-roller betting limits while disbanding the RCMP anti-illegal gaming unit.

Similar factors contributed to the high rate of money laundering through the real estate market in the Lower Mainland. Millions of dollars in drug trafficking revenue were reportedly steered into the market through private mortgages and loans. The real estate market in Greater Vancouver was a particularly inviting ML vehicle due to the ever-increasing values of home prices, which made it a great investment, and the orientation of the real estate market to wealthy Chinese buyers and investors, including corrupt government officials and those engaged in capital flight who are drawn to Greater Vancouver's real estate market as both a safe investment and as a desirable location for family members to live and to

⁴³² Organized Crime and Corruption Reporting Project, March 6, 2020, *Canada: Real-Estate Firms Violate Anti-Money Laundering Rules*. Internet web page, www.occrp.org; Vancouver Sun, Nov 18, 2016, Money-laundering watchdog cites 'significant' deficiencies at 100-plus B.C. real estate firms

school. Real estate laws in Canada that allow for the beneficial ownership of real property has also been blamed for the use of real estate to launder money in Canada.

If correct, the Vancouver Model has also exposed how the informal economy intersects with the legitimate economy to launder money. Within the underground (criminal) economy are MSBs and professional money launderers that specialize in the international transfer and laundering of drug proceeds and capital flight using unregulated methods and techniques – in particular, informal value transfer systems and trade-based money laundering.

While the legitimate economy and banking institutions will continue to be highly vulnerable to ML, equal attention must be paid to systems and methods that exist in the underground economy and the specialized laundering services and professionals that take advantage of them. Perhaps the most significant ML threat for B.C. and Canada that can be gleaned from the literature is the emergence of money laundering professionals and entities that combine legitimate commercial and financial sectors and transactions, on the one hand, with those methods and techniques that exist solely in the underground (and virtual) economy. That the main suspects in E-Pirate Investigation were allegedly able to use laundered drug cash and informal value transfer systems to finance the purchase of illegal drugs on the international market makes these underground systems and methods even more of a threat.

11. Appendix: Relevant Expertise and Experience of Stephen R. Schneider, Ph.D.

Dr. Schneider is considered one of Canada's foremost authorities on money laundering and proceeds of crime enforcement. He has addressed these issues as a researcher, government policy advisor, consultant, and educator since 1988.

As a research officer and policy analyst with the Drugs and Major Crimes branch of the Federal Ministry of the Solicitor General, he coauthored (along with Margaret Beare) the seminal 1990 study entitled *Tracing of Illicit Funds: Money Laundering in Canada*. He subsequently undertook research examining money laundering control for the Solicitor General that led to the creation of the RCMP-led Integrated Proceeds of Crime Enforcement units.

Other relevant responsibilities at the Solicitor General included providing policy advice to senior management on proceeds of crime and money laundering issues, conducting research for the development of proceeds of crime legislation and regulations, coordinating the development of a proceeds of crime enforcement training video, and representing the Solicitor General on the G-7 Financial Action Task Force's evaluation of Canadian money laundering enforcement programs.

Between 1994 and 2001, as a private researcher and consultant, Dr. Schneider was awarded a number of contracts by the Solicitor General to plan, advise, and evaluate the RCMP proceeds of crime enforcement program.

Around this same time, he worked on contract with Toronto-based About Business Crime Solutions Inc., which provides anti-money laundering consulting to private sector companies. His responsibilities include writing a monthly column on money laundering prevention for the company's newsletter and providing consulting and training services to their clients. He has also been invited to speak at annual anti-money laundering conferences hosted by ABC Solutions.

As a Manager with KPMG Investigation and Security Inc., from April 1998 to November 2003, Dr. Schneider was responsible for developing the firm's anti-money laundering prevention and compliance consulting program, which was marketed to financial institutions to help them comply with federal transaction reporting regulations. While with KPMG, he was the principal investigator in a survey of more than 1,900 companies examining the nature and scope of money laundering and internal prevention and compliance policies in Canada's financial services sector.

In 2003, the Nathanson Centre for the Study of Organized Crime and Corruption at York University published a national study authored by Dr. Schneider examining money laundering in Canada. This research involved a quantitative and qualitative analysis of almost 400 RCMP cases that involve a proceeds of crime investigation. The over-riding goal of this study was to empirically examine how the proceeds from profit-oriented (organized) criminal activities are disbursed through both the legitimate and underground economy in Canada. This study was supported by a \$25,000 grant from the Social Sciences and Humanities Research Council.

In 2007, Dr. Schneider co-authored with Margaret Beare the peer-reviewed book, *Money Laundering in Canada: Chasing Dirty and Dangerous Dollars*. Published by University of Toronto Press, the book describes and critically examines money laundering and terrorist financing as well as their enforcement in Canada.

Dr. Schneider has written and lectured extensively on money laundering, including articles in academic and trade journals, conference presentations, and training workshops conducted with police, bankers and accountants. He has also taught university courses on organized crime.

He is currently researching a book examining how large financial institutions become implicated in money laundering and other organized financial crimes, slated to be published in 2021. Dr. Schneider is also an advisor for and expert witness with the RCMP Outlaw Motorcycle Biker enforcement program.

Books

- 2018 *Canadian Organized Crime*, Toronto: Canadian Scholars Press (peer-reviewed textbook).
- 2007 *Money Laundering in Canada: Chasing Dirty and Dangerous and Dollars*, (co-authored with Margaret Beare), Toronto: University of Toronto Press (peer-reviewed).

Peer-Reviewed Articles

- 2006 “Privatising economic crime enforcement: Exploring the role of private sector investigative agencies in combating money laundering,” *Policing and Society*, 16(3), 285-313.
- 2006 “Testing the limits of solicitor-client privilege: Lawyers, money laundering, and suspicious transaction reporting,” *Journal of Money Laundering Control*, 10(1), 27-47.
- 2005 “Organized and financial crimes in the Canadian real estate market,” *Journal of Property Research*, 21(2), 1-20.
- 2005 “Money laundering through securities - An analysis of Canadian police cases.” *Asper Review of International Business and Trade Law*, Vol. IV, June, 169-184.
- 2004 “Money laundering in Canada: A quantitative analysis of RCMP cases,” *Journal of Financial Crime*, 11(3), January, 282-291.
- 2003 “The incorporation and operation of criminally-controlled companies in Canada,” *Journal of Money Laundering Control*, 7(2), November, 126-138.

Other Published Articles

- 2000 “Transnational organized crime and the Canadian business community,” *Canadian International Lawyer*. 4(2): 95-100.
- 2000 “Dirty money: How new money laundering legislation places an increased onus on insurance companies,” *Canadian Insurance*. August: 24-27.

Conference Presentations

“Organized crime and money laundering in Canada: Recent trends and developments,” *Money Laundering and Organized Crime: Protecting Business*, About Business Crime Solutions, Toronto, Ontario, October 5 to 7, 2016.

“Organized crime and money laundering in Canada: Recent trends and developments,” Keynote Speaker, *2015 Money Laundering Conference: Trends in Crime and Managing the Risks*, About Business Crime Solutions, Banff, Alberta, September 28 to 30, 2015.

“HSBC, Money Laundering and Organizational Pathology,” *Business, Human Rights and Law in Transnational Context*, Ryerson University, Toronto, Ontario, January 16 to 17, 2014.

“Money laundering in Canada: An analysis of RCMP case files,” *Traditional Organized Crime, Old is New*, Criminal Intelligence Service Ontario annual conference, North Bay, Ontario, September 8 to 11, 2008.

“Money laundering in Canada: An analysis of RCMP cases.” *Fourth Annual Conference of the Canadian Society of Criminology*, York University, Toronto, Ontario, April 1 to 4, 2004.

“Organized crime and money laundering in Canada’s capital markets,” *Intelligence-Led Regulation: Organized Crime in the Global Financial Markets*, Ontario Securities Commission, Toronto, Ontario, September 20 to 22, 2004.

“Combating money laundering in Canada: Exploring the role of private sector financial investigative agencies,” *In Search of Security: An International Conference on Policing and Security*, Law Commission of Canada, Montreal, Quebec, February 19-22, 2003.

“Advisor alert: Focus on money laundering and the offshore,” *Offshore Trusts: Strategies for Effective Wealth Maximization and Preservation*, Strategy Institute, Toronto, Ontario, March 26 to 27, 2000.

“Step-by-step procedures for developing a money laundering prevention program,” *Developing an Anti-Money Laundering Action Plan*, Strategy Institute, Toronto, Ontario, February 17 to 18 2000.

“Money laundering and the accounting profession,” *Certified General Accountants Association of Canada, Annual General Meeting*, Ottawa, Ontario, May 17 to 20, 1992.

“Money laundering and its enforcement in Canada,” *Money laundering Enforcement Update: Legislative, Regulatory, Enforcement Developments and Policy Implications*, American Bankers Association and American Bar Association, Washington, D.C., September 24 to 25, 1990.

Reports

- 1997 *Integrated Proceeds of Crime Unit Evaluation: Focus Group Sessions, 1997*. Report submitted to the Ministry of the Solicitor General, March.
- 1996 Integrated Proceeds of Crime Unit Evaluation: Financial Impact Assessment. Submitted to the Ministry of the Solicitor General, December.
- 1996 Integrated Proceeds of Crime Unit Evaluation: Focus Group Sessions, 1996. Submitted to the Ministry of the Solicitor General, April.

- 1995 Integrated Proceeds of Crime Units: Six-year Forecast for Fiscal Years 1995/96 to 2000/01. Submitted to the Royal Canadian Mounted Police, August.
- 1995 Integrated Anti-Drug Profiteering Units Evaluation: Focus Group Sessions: Vancouver and Toronto, 1995. Submitted to the Ministry of the Solicitor General, April.
- 1994 Integrated Anti-Drug Profiteering Units Evaluation: Financial Impact Assessment. Submitted to the Ministry of the Solicitor General, July.
- 1993 Analyzing Proceeds of Crime Enforcement in Canada: Bill C-61 and Beyond. Ottawa: Solicitor General Canada.
- 1990 Tracing of Illicit Funds: Money Laundering in Canada (co-authored with Margaret Beare). Ottawa: Solicitor General Canada.

Research and Publication Grants

Research grant for \$25,500 to research and analyze money laundering and its enforcement in Canada and abroad. Awarded in 2002 by the Social Sciences and Humanities Research Council.

Publication grant of \$7,000 to subsidize *Money Laundering in Canada: Chasing Dirty and Dangerous Dollars* (University of Toronto Press). Awarded in 2007 by the Social Sciences and Humanities Council of Canada and the Canadian Federation of Humanities and Social Sciences.

Research and Consulting Contracts

1993 to 2001 – Various contracts collectively for research contributing to the evaluation of proceeds of crime enforcement in Canada. Awarded by the Solicitor General of Canada.

1999 – Research into money laundering in Canada based upon an analysis of RCMP case files. Awarded by the Royal Canadian Mounted Police and the Nathanson Centre for the Study of Organized Crime and Corruption (York University).

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